ABN·AMRO

ABN AMRO Hypotheken Groep B.V.

Annual Report

2020

Contents

ABN AMRO Hypotheken Groep B.V. at a glance

ABN AMRO Hypotheken Groep B.V. (AAHG) is a subsidiary of ABN AMRO Bank N.V. (ABN AMRO). It focuses primarily on providing residential mortgages to customers in the Netherlands and managing these mortgages.

Our active brands

ABN·AMRO

florius

moneyou

Registered office in

Amersfoort, the Netherlands

Number of employees (FTEs)

1,137

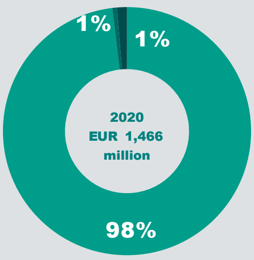
working for AAHG, seconded by ABN AMRO (2019: 990)

Operating income for 2020

1,466 million

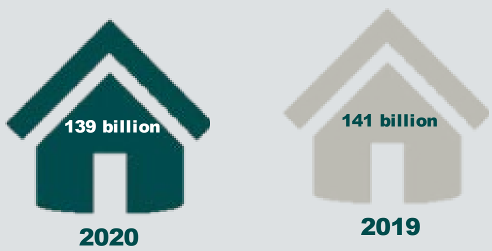
(2019: 1,507 million)

By type of income (in %)



- Net interest income
- Net fee and commission income
- Other operating income

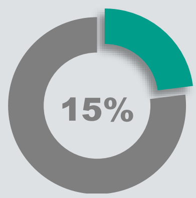
Mortgage portfolio



Market share

(source: Dutch Land Registry)

Origination



(2019: 18%)

ABN·AMRO

Annual Report

Corporate structure

ABN AMRO Hypotheken Groep B.V. (AAHG), a private limited liability company founded under Dutch law on 30 December 1991, is a wholly owned subsidiary of ABN AMRO Bank N.V. (ABN AMRO). The financial information of AAHG has been incorporated into the 2020 consolidated financial statements of ABN AMRO.

ABN AMRO has issued a statement of joint and several liability with respect to AAHG. By virtue of this statement, ABN AMRO has assumed joint and several liability for all liabilities arising from legal acts of AAHG. The statement, which is governed by Section 403, Book 2 of the Dutch Civil Code, has been filed with the Trade Register of the Chamber of Commerce.

AAHG has a two-tier board structure; it has a Managing Board and a Supervisory Board.

The responsibilities and activities of the Managing Board and the Supervisory Board are governed by Dutch corporate law and the Articles of Association of AAHG. Furthermore, AAHG has established procedures for the Managing Board and Supervisory Board regarding their duties, powers and responsibilities.

Managing Board

Responsibilities

The Managing Board members collectively manage AAHG and are responsible for its strategy, structure and performance, including the assessment and management of risks associated with AAHG activities.

In performing their duties, the Managing Board members are guided by the interests and continuity of AAHG and its affiliated entities. As such, they take the interests of all AAHG stakeholders and society at large into consideration.

The Managing Board members report to the Supervisory Board and to the General Meeting. The Managing Board is required to inform the Supervisory Board of the following topics: risk, operational and financial objectives, the financial statements, strategy and the parameters applied in relation to the strategy.

Appointment, suspension and dismissal

Managing Board members are appointed by the General Meeting. The Supervisory Board and the General Meeting may suspend a member of the Managing Board at any time. Managing Board members can only be dismissed by the General Meeting. These procedures are described in the Rules of Procedure of AAHG.

Remuneration

Managing Board members are subject to ABN AMRO's Global Reward Policy. This policy provides a framework for managing reward and performance effectively and applies globally within ABN AMRO at all levels and in all countries. The Global Reward Policy also specifies rules with respect to employees whose professional activities could have a material impact on ABN AMRO's risk profile. This group of employees is referred to as Identified Staff.

ABN AMRO's objective is to position the level of total direct compensation for Managing Board members below median market levels. The remuneration packages of Dutch-based Identified Staff who are not Management Group members are governed by ABN AMRO's collective labour agreement. Effective from 2015, remuneration restrictions under the Dutch Bonus Prohibition Act have been broadened to include senior management as described in the Dutch Act on Remuneration Policies of Financial Institutions *(Wet beloningsbeleid financiële ondernemingen - Wbfo)*. Therefore, from 1 January 2015 onwards, there has been no option to award variable pay to Managing Board members during the period of state support.

An overview of the remuneration of the Managing Board is provided in the notes to the Statutory Annual Financial Statements.

Supervisory Board

Responsibilities

The Supervisory Board supervises the Managing Board as well as the overall situation at AAHG. In addition, the Supervisory Board advises the Managing Board members, both solicited and unsolicited.

In performing their duties, Supervisory Board members are guided by the interests of AAHG, taking into consideration the interests of all AAHG stakeholders and society at large. Several powers are vested in the Supervisory Board, including approval of certain resolutions proposed by the Managing Board.

The Supervisory Board meets at least six times a year and whenever any Supervisory Board member deems necessary. The Audit Committee and Risk Committee are two of the sub-committees of the Supervisory Board. The responsibilities of the Audit Committee and the Risk Committee include assessing all matters relating to the accounting policies, internal control, the financial reporting functions, the internal audit, the external audit, risk assessments and compliance with regulations.

Appointment, suspension and dismissal

A list of the current members of the Supervisory Board is provided in the chapter on the Supervisory Board.

Supervisory Board members are formally appointed and may be suspended or dismissed by the General Meeting.

Diversity

All members of the Managing Board and the Supervisory Board are natural persons. Two members of the Supervisory Board are external members, one of the four members of the Supervisory Board is female and one of the three members of the Managing Board is female. AAHG endeavours to meet its 30% gender diversity target on the Supervisory Board and Managing Board. On the Supervisory Board, women currently make up 25% of the membership; on the Managing Board they make up 33%. When vacancies arise, AAHG gives due consideration to gender diversity requirements in its search for suitable new members who fit the profile.

Dutch Banking Code

The Dutch Banking Code was introduced on 1 January 2010 and sets out principles that banks are expected to adhere to in terms of corporate governance, risk management, audit and remuneration. The Dutch Banking Code applies to AAHG as a licensed bank under the Dutch Financial Supervision Act (*Wet op het financieel toezicht*). ABN AMRO applies all principles of the Dutch Banking Code to every one of its consolidated subsidiaries.

In accordance with ABN AMRO's management framework, all group members are an integral part of the ABN AMRO organisation. As a result, the bank's policies and standards related to compliance with internal and external regulations and best practices are applicable to the entire ABN AMRO group of companies.

A principle-by-principle overview of the manner in which ABN AMRO and its subsidiaries comply with the Dutch Banking Code has been published on www.abnamro.com.

The updated Dutch Banking Code came into effect on 1 January 2015, along with the Social Charter (*Maatschappelijk Statuut*), which is complementary to the Dutch Banking Code. The updated Dutch Banking Code takes into account the recommendations of the Banking Code Monitoring Commission, the report of the Committee on the Structure of Banks, government views on the Dutch banking industry and the vision of the Dutch Banking Association. The updated Dutch Banking Code, along with the Social Charter, which includes the Banker's Oath and the associated rules of conduct and disciplinary rules, applies to all employees of financial institutions in the Netherlands and emphasises the social role of banks and their commitment to meeting the expectations of society at large.

General Meeting of Shareholders

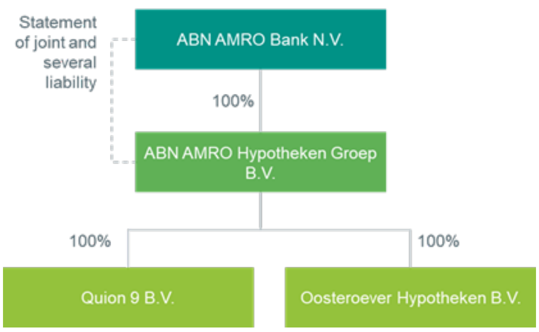
At least one General Meeting is held every year. The General Meeting is competent to adopt the Annual Report and takes important decisions regarding the identity or character of AAHG. The agenda of the General Meeting includes the following items as a minimum: the Annual Report, adoption of the Statutory Annual Financial Statements and granting discharge to the members of the Managing Board and the Supervisory Board.

The last General Meeting was held on 29 June 2020. The General Meeting adopted the 2019 Statutory Financial Statements and granted discharge to the members of the Managing Board and the Supervisory Board.

Legal structure

AAHG is a fully licensed bank. Under the Single Supervisory Mechanism, which took effect in November 2014, ABN AMRO is subject to prudential supervision by the European Central Bank (ECB).

AAHG has two wholly owned subsidiaries: Quion 9 B.V. and Oosteroever Hypotheken B.V.



Report of the Managing Board

After the public health crisis started in March 2020, the year was largely dominated by the impact of COVID-19. Since then, 90% of our employees have worked from home full-time. We instantly started offering customers who threatened to run into financial difficulties the option for a payment holiday on their mortgage loan. In 2020, the mortgage market grew by 26% against 2019, house prices kept rising and we continued to face fierce competition from both banks and non-banks. Because of repayments, our mortgage portfolio decreased by EUR 1.4 billion. In 2020, AAHG's market share in loan origination was 15%.

COVID-19

Immediately after the Dutch government had announced the 'intelligent lockdown', we came up with a payment holiday (of three or six months) for customers who might find themselves in financial difficulties due to the COVID-19 pandemic. Approximately 7,800 customers made use of this facility. In the fourth quarter of 2020, we started offering our customers a tailor-made solution if they run into financial problems. We have increased our prevention capacity so that we can provide support to more customers. We keep close track of arrears in our total portfolio.

The COVID-19 pandemic also had a significant impact on our employees. From mid-March onwards, 90% of our workforce has worked from home full-time. This demanded a lot from our employees as some of them were expected to work from home while at the same time serving as a caregiver and/or home schooling their children. In November, ABN AMRO gave all employees the opportunity to create an ergonomic home office.

General information

In the Netherlands, ABN AMRO's mortgage products and services are offered through the bank branches of ABN AMRO, through intermediaries and online. When it comes to these products, AAHG is responsible for product development and the total mortgage chain, including servicing, mortgage advice and management. In terms of operations, use is made of service providers; the most important service provider is Stater N.V. to whom we have outsourced our back-office activities.

Strategy

ABN AMRO's purpose is: 'Banking for better, for generations to come'.

We are confident that we can fulfil our purpose by focusing on the following three priorities over the coming years, in line with the bank-wide strategy.

<u>Supporting our customers' shift to sustainability:</u>
Our customers increasingly choose, or are showing more and more interest in, sustainable solutions for their homes, such as effective insulation or solar panels. We can help them make this shift by offering our financial expertise and funding their investment.

We address sustainable improvement options at every mortgage consultation. We experiment with customers and partners to find new opportunities to achieve this. To encourage our customers to invest in sustainable homes or take sustainability-promoting measures, we introduced a lower interest rate on ABN AMRO and Florius mortgages for residential properties with energy rating A, for new clients and existing clients who refix their interest rate. We also provide Florius intermediaries with leads for customers who are interested in sustainability. 94% of ABN AMRO's mortgage advisers have been trained as

Sustainable Living Advisers, meaning that they have the expertise needed to discuss sustainability-promoting steps with their customers.

Reinventing the customer experience:
ABN AMRO wants to be a customer-focused and data-driven bank that treasures the customer relationship and delivers an effortless and unique customer experience by aiming to exceed customer expectations.

We are proud that, in 2020, Florius was awarded the Gouden Spreekbuis and the Gouden Lotus Award for being the best mortgage provider in the Netherlands. The reasons why we won those awards were the COVID-related payment holiday we offered to our customers, our reliable service provision and our portal for intermediaries, which allows us to share leads/data on customers (subject to their consent) on energy ratings, interest-only mortgages and interest reset dates. This gives the intermediaries the opportunity to proactively contact our customers. We also introduced digital signing for Florius in response to the COVID-19 restrictions.

Our Originate-to-Distribute proposition for 30-year fixed-rate mortgages proved to be successful in 2020 and we have extended our partnership, which enables us to benefit from the strong demand for long-term interest rate mortgages in the Dutch market.

Building a future proof bank:
Our strategy can only succeed if we unlock our people's full potential and provide them with the right tools to successfully contribute to our purpose and strategy. To achieve our strategic ambition of being a future-proof bank, AAHG focuses on becoming a data-driven and high-performing organisation with future-proof IT systems.

In 2020, we further increased our efforts to contact customers with an interest-only mortgage. The objective is to make them aware of their personal situation once their mortgage has reached maturity. By providing information about their financial and tax situation at maturity, we aim to give our customers an understanding of the future affordability of their mortgage. We do so by taking a pro-active approach towards customers, by offering ABN AMRO's online mortgage check and by giving customers the option to have an individual meeting with one of our mortgage specialists. This will remain an important focus area in 2021.

We have improved our product approval process to meet the standards set by our regulator, which we will further roll out in 2021. We had a full regulatory change agenda, based on which we developed new risk models, strengthened our data management and prepared to comply with regulations we are expected to implement in 2021.

Financial information

We are content with the financial results we achieved in 2020 overall. Our key financial indicators were as follows:

(x EUR 1M)	2020	2019
Profit	823	858
Operating income	1,466	1,507
Operating expenses	362	353
Loan impairments	0	19

Principal risks and uncertainties

The Dutch mortgage market grew by 26% against 2019. The volume of new mortgage registrations at the Dutch Land Registry (Kadaster) increased from EUR 122.6 billion in 2019 to EUR 155.0 billion in 2020.The Dutch Land Registry implemented a new calculation method. The figures for both 2019 and 2020 are based on this new method.

The Dutch mortgage market continues to be attractive to many players because of the low-interest rate environment. Non-banks, such as pension funds, insurance companies and asset managers still have a substantial share in the Dutch mortgage market, either directly or indirectly through so-called 'directing parties'. These non-banking competitors have the advantage that restrictive bank regulations, such as Basel IV capital requirements, Dutch banking tax, and EBA guidelines, do not apply to them.

Furthermore, non-banks have an appetite for long-term interest rate mortgages (20 years or longer), which currently represent the majority of market demand. These long-term interest rate mortgages are not a natural fit with the funding profile of a bank. New competitors often have a different funding profile and have a stronger appetite for these long-term interest rate mortgages. This is our rationale for our Originate-to-Distribute proposition for 30-year fixed-rate mortgages.

ABN AMRO pursues a moderate risk profile. In order to keep the risk profile at a moderate level, ABN AMRO and AAHG apply a three-lines-of-defence model.

Principal risks for AAHG are:

- Credit risk
- Market risk
- Liquidity risk
- Business risk
- Operational risk
- Compliance risk

For more details on these risks, we refer to the 'Risk management' chapter.

Rules and regulations

In 2020, we updated and aligned our policies and underwriting criteria to new rules and regulations, changes in the residential mortgages code of conduct and changes in the National Mortgage Guarantee (Dutch acronym: NHG).

Changes in the Managing Board

There were no changes in the composition of the Managing Board in 2020.

Information on application of codes of conduct

Compliance with the Dutch Financial Supervision Act and the related regulations and codes of conduct is an important aspect in the business practices of AAHG. In this process, AAHG applies the principles as defined by ABN AMRO. AAHG has a Supervisory Board that monitors compliance with the codes of conduct. The Managing Board performed a self-assessment in the last quarter of 2020.

Amersfoort, the Netherlands, 18 May 2021

Managing Board

ABN AMRO Hypotheken Groep B.V

Report of the Supervisory Board

The Supervisory Board is pleased to present the Annual Report 2020 as presented by the Managing Board. 2020 was an exceptional year, because of the COVID-19 pandemic. The Supervisory Board appreciates the leadership the Managing Board demonstrated during this period, both towards customers and employees. Given all the developments and the difficult market conditions, the Supervisory Board is satisfied with AAHG's financial performance.

Composition of the Supervisory Board

There were no changes in the composition of the Supervisory Board in 2020.

The Supervisory Board is of the opinion that, as a whole, it has the required knowledge, expertise and experience to adequately perform its supervisory duties. A description of the duties, responsibilities and current composition of the Supervisory Board is provided in the 'Corporate structure' chapter of this Annual Report.

Remuneration of the Supervisory Board

The chair and one member of the Supervisory Board signed a Supervisory Services Agreement and their roles are remunerated. The two other members of the Supervisory Board qualify as employees of ABN AMRO and receive no remuneration for their roles as Supervisory Board Members.

Supervisory Board meetings

The Supervisory Board held four quarterly scheduled meetings, two half-year meetings and a summer session in 2020. Prior to each meeting, the Supervisory Board took sufficient time to discuss topics without the Managing Board being in attendance. All scheduled plenary meetings were held
in the presence of the members of the Managing Board and the Company Secretary.

The Company Secretary prepared agendas for Supervisory Board meetings in 2020.
Recurring agenda items included financial performance, risk management, compliance, audit findings, market and regulatory developments and strategy and people management.

In addition to the seven scheduled meetings, the Supervisory Board held a meeting to discuss the outcome of the self-assessment. Three deepdives/lifelong learning sessions were held that concerned the following topics: outsourcing to Stater, client due diligence and IT/operational risk management.

Throughout the year, the Supervisory Board monitored the implementation of the strategy and supported the Managing Board in its efforts to put customer interests first and maintain a moderate risk profile as part of the long-term strategy. The Supervisory Board interacts regularly with the Managing Board.

The Managing Board regularly informed and briefed the Supervisory Board on planned organisational changes, strategic initiatives and incidents.

Audit Committee and Risk Committee

The financial information was audited by both internal and external auditors. AAHG provides the information to the members of the Supervisory Board on a regular basis in order to educate them on the different risk types and share relevant results.
The Managing Board informs the Supervisory Board frequently about the contacts with the main regulators (Dutch Central Bank (DNB)/European Central Bank (ECB)/Dutch Authority for the Financial Markets (AFM)).

EY is AAHG's independent external auditor. EY audited the 2020 Annual Report and the Statutory Financial Statements. The Annual Report and accompanying Statutory Financial Statements were discussed by the Supervisory Board on 18 May 2021. The members of the Supervisory Board have read the Auditor's Report. In addition, EY presented its Audit Plan for the 2020 audit to the Supervisory Board on 29 October 2020.

In 2020, the Audit Committee and Risk Committee held four plenary meetings. The Risk Management Report, which is provided to the Supervisory Board on a regular basis, served as the basis for effective discussions on principal risks.

Overall, communications between Supervisory Board and Managing Board are perceived as open and transparent. The Managing Board stays on top of the developments in the mortgage market and the Supervisory Board is confident that AAHG is on the right track to prepare for future challenges.

Advice to the General Meeting of Shareholders

The Supervisory Board recommends that the General Meeting approve the Annual Report and Financial Statements and that it discharges the members of the Management Board for their management and the members of the Supervisory Board for their supervision.

Amersfoort, the Netherlands, 18 May 2021

Supervisory Board

ABN AMRO Hypotheken Groep B.V.

Annual Financial Statements

Statutory statement of financial position

(after profit appropriation)

(x EUR 1,000)	Note	31 December 2020	31 December 2019
Cash	3	2,586,380	5,350,882
Loans and advances - banks	4	16,359,967	20,117,993
Loans and advances - customers	5	139,267,410	140,712,555
Participating interests in group companies	6	1,370	1,370
Property and equipment	7	129	229
Other assets	8	5,742,210	4,424,470
Prepayments and accrued income	9	1,909	2,073
Total assets		**163,959,374**	**170,609,572**
Due to banks	10	145,102,908	148,283,792
Due to customers	11	2,548,834	2,492,284
Other liabilities	12	15,924,700	19,361,974
Accruals and deferred income	13	335,166	343,674
Provisions	14	42,746	112,385
Total liabilities		**163,954,355**	**170,594,109**
- Paid-up and called-up capital		19	19
- Other reserves		5,000	15,444
Total equity	15	**5,019**	**15,463**
Total liabilities and equity		**163,959,374**	**170,609,572**
Irrevocable commitments	16	5,687,697	4,798,980

** Please note that certain figures in this report may not tally exactly due to rounding.*

Statutory income statement

(x EUR 1,000)	Note	2020	2019
Interest income		4,156,278	4,762,376
Interest expense		2,730,528	3,293,959
Net interest income	19	1,425,750	1,468,417
Share of profit of associates	6	12,653	15,520
Fee and commission income	20	8,995	8,187
Other operating income	21	18,646	14,473
Operating income		**1,466,044**	**1,506,598**
Personnel expenses and other general and administrative expenses	22	262,879	243,385
Depreciation	7	100	326
Other operating expenses	23	99,357	90,084
Impairment charges on financial instruments	24	-9	19,080
Operating expenses		**362,327**	**352,875**
Operating profit before taxation		**1,103,717**	**1,153,723**
Income tax expense	25	281,014	295,578
Profit for the year		**822,703**	**858,145**

Statutory statement of cash flows

(x EUR 1,000)	Note	2020	2019
Cash flows from operating activities			
Operating profit before taxation		1,103,717	1,153,723
Adjustments of non-cash items included in profit:			
Amortisation and depreciation	7	100	326
Changes in impairment charges	5	3,992	22,105
Changes in other provisions	14	-24,231	15,161
Changes in operating assets and liabilities			
Changes in loans and advances - banks	4	3,758,027	4,389,024
Changes in loans and advances - customers	5	1,441,153	-2,231,342
Changes in due to customers	11	56,551	145,768
Changes in prepayments and accrued income	9	164	-229
Changes in accruals and deferred income	13	-289,523	-359,737
Changes in other provisions	14	-45,408	-410
Changes in other assets	8	-1,317,739	-1,050,788
Changes in other liabilities	12	-3,422,718	-2,770,639
Net cash from operating activities		**1,264,083**	**-687,038**
Cash flows from investing activities	7	**0**	**-299**
Cash flows from financing activities			
Dividends paid	15	-847,701	-918,596
Changes in due to banks	10	-3,180,884	2,737,963
Net cash from financing activities		**-4,028,585**	**1,819,367**
Net increase/decrease in cash and cash equivalents		**-2,764,502**	**1,132,030**
Cash and cash equivalents at 1 January		5,350,882	4,218,852
Increase/decrease in cash and cash equivalents		-2,764,502	1,132,030
Cash and cash equivalents at 31 December	3	**2,586,380**	**5,350,882**

Notes to the Annual Financial Statements

What follows are the notes to the Statutory Annual Financial Statements of ABN AMRO Hypotheken Groep B.V. for 2020.

1 General

ABN AMRO Hypotheken Groep B.V. (AAHG) is a private limited liability company. AAHG has its registered office at Computerweg 8, 3821 AB Amersfoort, the Netherlands. All ordinary shares are held by ABN AMRO Bank N.V. (ABN AMRO). AAHG is registered with the Dutch Chamber of Commerce under number 08024285.

AAHG has the following subsidiaries:
Oosteroever Hypotheken B.V.
having its registered office at:
Fascinatio Boulevard 1302
2909 VA Capelle aan den IJssel
The Netherlands
CoC no. 33112834

Quion 9 B.V.
having its registered office at:
Fascinatio Boulevard 1302
2909 VA Capelle aan den IJssel
The Netherlands
CoC no. 24272135

AAHG offers residential mortgages in the Netherlands.

ABN AMRO is the ultimate parent company and all shares in ABN AMRO's capital are held by two foundations: Stichting Administratiekantoor Beheer Financiële Instellingen (NLFI) and Stichting Administratiekantoor Continuïteit ABN AMRO Bank (STAK AAB). For ABN AMRO's consolidated financial statements, please visit www.abnamro.com/annualreport.

1.1 Accounting policies

The Annual Financial Statements have been prepared in accordance with the provisions of Part 9, Book 2 of the Dutch Civil Code. As of 1 January 2018, AAHG has adopted the expected credit loss impairment principles of IFRS 9 "Financial Instruments", including the related disclosure requirements of IFRS 7, which is an option offered in Dutch Accounting Standard 290 "Financial Instruments" applicable under Book 2 of the Dutch Civil Code.

As an intermediate holding company, AAHG applies the consolidation exemption provided by Section 408, Book 2 of the Dutch Civil Code.

1.2 Going concern

The Annual Financial Statements have been prepared on a going concern basis. Within the scope of Section 403, Book 2 of the Dutch Civil Code, ABN AMRO has assumed liability for any debts arising from the legal acts of AAHG and its subsidiaries.

1.3 Estimates and assumptions

The preparation of the Annual Financial Statements requires the management of AAHG to use judgements, estimates and assumptions. These affect the application of the accounting policies and the reported amounts of assets and liabilities, and income and expense. The principal judgements and estimates, including the related assumptions, mainly concern the measurement of financial instruments (including impairments for credit losses) and provisions. For further information, see the 'Risk management' chapter.

1.4 Recognition and derecognition

Financial assets are generally derecognised when AAHG is no longer exposed to the economic risks and rewards associated with the contractual rights that comprise an asset. This occurs when the rights are realised, expire or substantially all risk and rewards are transferred. Financial assets are also derecognised if the bank has neither transferred nor retained substantially all risks and rewards of ownership and has no control over these financial assets.

ABN AMRO uses securitisation for its financing requirements. In this process, AAHG transfers the legal title of financial assets (mortgage loans) to a special-purpose entity (SPE), which – for its part – issues residential mortgage-backed securities (RMBS notes) to investors. Since not all risks associated with the mortgage loans have been transferred to the SPE, AAHG continues to recognise the securitised mortgage loans in its statement of financial position.

1.5 Related parties

Parties are deemed to be related if one party has control over the other party or can exercise significant influence on the other party's financial and operating activities. AAHG's related parties are:

- The Managing Board of AAHG
- The Supervisory Board of AAHG
- Dolphin Master Issuer B.V.
- Dolphin Asset Purchasing B.V.
- Covered Bond Company B.V.
- Covered Bond Company 2 B.V.
- Oosteroever Hypotheken B.V.
- Quion 9 B.V.
- ABN AMRO Bank N.V. and its subsidiaries

1.6 Foreign currency translation

The Statutory Annual Financial Statements are denominated in euros (rounded to the nearest thousand unless indicated otherwise). AAHG does not conduct transactions in foreign currencies.

1.7 Amortised cost

Amortised cost means that, at initial recognition, a financial instrument is measured at fair value adjusted for expected repayments and amortisation of coupons, fees and expenses to represent the effective interest rate of the instrument.

1.8 Fair value

Fair value is the price at which an asset can be exchanged or a liability can be settled in an orderly transaction between independent market participants.

1.9 Maturities of assets and liabilities

Current assets and liabilities have a maturity of less than one year. Non-current assets and liabilities have a maturity of one year or longer.

1.10 Impairments

The expected credit loss model (ECL) is forward-looking. The IFRS 9 impairments are applicable to financial assets measured at amortised cost and FVOCI, and to loan commitments. Financial instruments are divided into three groups, depending on credit risk quality:

- Financial instruments without a significant increase in credit risk (stage 1, performing);
- Financial instruments with a significant increase in credit risk (stage 2, underperforming);
- Credit-impaired financial instruments (stage 3, default).

For details, see the 'Risk management' chapter.

2 Accounting policies for the statement of financial position and income statement

2.1 Cash

Cash represents account balances that are immediately due and payable. Cash is measured at nominal value.

2.2 Loans and advances - banks

Loans and advances - banks include receivables from ABN AMRO that are and are not payable on demand. At initial recognition, loans and advances - banks are measured at fair value; they are subsequently measured at amortised cost using the effective interest rate method, net of impairment losses.

2.3 Loans and advances - customers

Loans and advances - customers consist of mortgage loans less impairments and arrangement fees. A mortgage loan is always originated on the basis of collateral. At initial recognition, loans and advances - customers are measured at fair value; they are subsequently measured at amortised cost using the effective interest rate method, net of impairment losses.

2.4 Participating interests in group companies

Participating interests in group companies are recognised using the net asset value method.

2.5 Property and equipment

Property and equipment are measured at cost, net of accumulated depreciation and impairment.

The cost of the assets consists of the acquisition price and other costs associated with bringing the assets to the location and in the condition necessary for them to be capable of operating in practice.

Depreciation is based on cost using the straight-line method based on useful life. Assets are depreciated from the time they are available for their intended use and are no longer depreciated when they are decommissioned or sold.

The following depreciation rates are used:

Leasehold improvements	20%
Hardware	33%
Equipment	20%

2.6 Other assets

Other assets consist of receivables from group companies, cash in transit, trade receivables and other assets. At initial recognition, other assets are measured at fair value; they are subsequently measured at amortised cost using the effective interest rate method, net of impairment losses.

2.7 Prepayments and accrued income

Prepayments reflect expenses paid at the reporting date relating to future periods. Accrued income reflects the difference between recognised interest income and interest payments received to date.

2.8 Due to banks

Amounts due to banks consist of debts to ABN AMRO that are not payable on demand. At initial recognition, amounts due to banks are measured at fair value; they are subsequently measured at amortised cost using the effective interest rate method.

2.9 Due to customers

Amounts due to customers consist of deposit accounts for premium deposits paid on savings-based mortgages that will be used by customers to pay future premiums on their mortgage loans and of savings accrued by customers. At initial recognition, amounts due to customers are measured at fair value; they are subsequently measured at amortised cost using the effective interest rate method.

2.10 Other liabilities

Other liabilities consist of debts to SPEs, trade payables, dividends payable and other liabilities. At initial recognition, other liabilities are measured at fair value; they are subsequently measured at amortised cost using the effective interest rate method.

2.11 Accruals and deferred income

Accruals and deferred income comprise interest payable and other deferred items. At initial recognition, accruals and deferred income are measured at fair value; they are subsequently measured at amortised cost using the effective interest method.

2.12 Provisions

A provision is recognised in the statement of financial position when:

- there is a present obligation (legal or constructive) as a result of past events;
- a reliable estimate can be made of the amount of the obligation; and
- it is probable that an outflow of resources will be required to settle the obligation.

Provisions are recognised based on the best estimate of the expenditure that is expected to be required to settle the obligations and losses. Unless indicated otherwise, provisions are measured at present value.

A provision for claims, disputes and legal proceedings is recognised if it is probable that an outflow of resources will be required to settle the claims, disputes or court cases. The provision is based on the best estimate of the amount for which the claim can be settled.

2.13 Equity

The share capital comprises the issued and paid-up ordinary shares in AAHG.

2.14 Net interest income

Interest income and interest expense are recognised in the period to which they relate, accounted for based on the effective interest rate method. Repayment fees are allocated to consecutive reporting periods in the form of interest expense such that, together with the interest due on the loan, the effective interest rate is recognised through profit or loss and the amortisation value in the financial position.

2.15 Fee and commission income

Fees and commissions are recognised as the services are provided. Service fees are recognised on a straight-line basis over the service contract period; portfolio and other management advisory and service fees are recognised based on the applicable service contracts.

Fees and commissions dependent on the outcome of a particular event or contingent upon performance are recognised when the relevant conditions are met. AAHG is paid direct fees by customers only.

2.16 Other operating income

Other operating income is recognised in the period to which it relates and mainly concerns servicing fees.

2.17 Personnel expenses and other general and administrative expenses

Personnel expenses relate to all externally hired staff. The related expense is recognised in the income statement in the period in which the work is performed. The employees are hired from ABN AMRO on the basis of a secondment contract. ABN AMRO charges this expense to AAHG on a monthly basis.

General and administrative expenses include housing, office and IT expenses, as well as selling and advertising expenses incurred in the reporting period. External staff is hired (from other parties than ABN AMRO) to perform operational activities. The costs associated with external hires are recognised as services provided by third parties.

2.18 Depreciation

This item comprises depreciation charges for property and equipment. For details, see the notes relating to property and equipment.

2.19 Other operating expenses

Other operating expenses are recognised in the period to which they relate.

2.20 Impairment charges on financial instruments

Loan impairment charges are recognised in the income statement as an addition to, or release of, the loan impairment charges within the 'Loans and advances - customers' item in the statement of financial position.

2.21 Income tax expense

Current tax assets and liabilities are based on the prevailing tax rate, with reference to the profit or loss and taking into account tax-exempt items and any partly or non-deductible expenses.

Deferred tax is recognised for qualifying temporary differences. Temporary differences represent the difference between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted at the reporting date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will allow the deferred tax asset to be recovered.

AAHG forms a corporate income tax group with ABN AMRO and several of ABN AMRO's Dutch subsidiaries. Each member of the tax group bears joint and several liability for the corporate income tax payable by the members of the tax group. Taxes are settled within this tax group as if each company were an autonomous taxpayer.

2.22 Statement of cash flows

The statement of cash flows has been prepared using the indirect method and provides an understanding of the source of the cash that became available during the year as well as its application during the year. Where net cash from operating activities is concerned, the operating profit before taxation is adjusted for items in the income statement and the statement of financial position that effectively result in cash flows in the reporting period. Cash flows from operating, investing and financing activities are presented separately.

2.23 Changes in accounting estimates

In 2020, AAHG revised its methodology to refine the estimation of the remeasurement results on mortgages and to better reflect the client's prepayment behaviour. The revised methodology is accounted for as a change in accounting estimates and recognised prospectively. This resulted in a decrease of EUR 80 million from loans and advances – customers. There is no net profit and loss impact for AAHG, as this amount is settled with ABN AMRO based on the Funds Transfer Price Agreement between AAHG and ABN AMRO.

2.24 General

In 2020, AAHG improved the classification of several items in the income statement, in order to provide a better understanding of these items. The comparative figures have been restated accordingly.

3 Cash

This item can be broken down as follows:

(x EUR 1,000)	2020	2019
Cash in hand and other cash equivalents	2,586,380	5,350,882
Cash	**2,586,380**	**5,350,882**

Cash is at AAHG's free disposal. The decrease was mainly attributable to a transfer of EUR 5.6 billion between 'cash' and 'due to banks'. For 'due to banks', see Note 10. This transfer was partially offset by standard cash movements.

4 Loans and advances - banks

This item can be broken down as follows:

(x EUR 1,000)	2020	2019
Deposits held with ABN AMRO	13,532,500	17,532,500
Receivables from group companies	2,827,467	2,585,493
Loans and advances - banks	**16,359,967**	**20,117,993**

'Deposits held with ABN AMRO' is the deposit at ABN AMRO. AAHG funds 100% of the mortgages at ABN AMRO and for the money received from the securitisations, AAHG forms a deposit at ABN AMRO. 'Deposits held with ABN AMRO' decreased because the SPE redeemed notes. For more details on the notes, we refer to the 'Securitisation' section in the Risk management chapter.

None of the deposits held with ABN AMRO had a term to maturity of less than three months (2019: EUR 0). Of this item, EUR 4.0 billion relates to deposits with a remaining term to maturity of between three months and one year (2019: EUR 4.0 billion) and EUR 7.5 billion relates to deposits with a remaining term to maturity of between one year and five years (2019: EUR 11.5 billion). The remaining amount relates to deposits with a remaining term to maturity of more than five years.

The average interest rate on the deposits is 0.26% (2019: 0.25%). Receivables from group companies are interest-free.

5 Loans and advances - customers

This item can be broken down as follows:

(x EUR 1,000)	2020	2019
Mortgage loans	139,379,962	140,820,594
- of which securitised	*10,314,971*	*14,395,656*
Arrangement fees	289	810
Loan loss allowances	-112,841	-108,849
Loans and advances - customers	**139,267,410**	**140,712,555**

The securitised part of the mortgage loans decreased because of the redemption of the notes by the SPE.

The total collateral (i.e. the net collateral value) provided for the mortgage loans represented EUR 222 billion on 31 December 2020 (2019: EUR 214 billion). The surplus value of the collateral amounted to EUR 85.9 billion (2019: EUR 77.5 billion). Reference is made to the section on credit risk for further details on the collateral obtained. An amount of EUR 19.9 billion of the collateral has been encumbered in relation to the securitised portfolio (2019: EUR 25.2 billion).

Of mortgage loans, an amount of EUR 38.4 billion has been pledged in relation to ABN AMRO Covered Bond Company B.V. (2019: EUR 36.3 billion), EUR 47.4 billion has been pledged in relation to ABN AMRO Covered Bond Company 2 B.V. (2019: 24.8 billion) and EUR 4.0 billion has been pledged to a.s.r. (2019: EUR 3.8 billion).

Movements in mortgage loans:

(x EUR 1,000)	**2020**	2019
At 1 January	140,820,594	138,501,540
Originated (production)	15,790,003	13,094,978
Purchase of PBNL portfolio		2,080,317
Repayments	-17,585,273	-13,154,363
Change in deeds of assignment	354,637	298,122
At 31 December	**139,379,962**	**140,820,594**

The remaining contractual terms to maturity of the mortgage loans can be broken down as follows:

(x EUR 1,000)	**2020**	**2019**
Short-term (less than 3 months)	182,453	218,546
Long-term (between 3 months and 1 year)	122,991	165,171
Long-term (between 1 and 5 years)	2,316,029	2,101,076
Long-term (more than 5 years)	136,758,489	138,335,801
At 31 December	**139,379,962**	**140,820,594**

Loan loss allowances

Movements in this item can be broken down as follows:

(x EUR 1,000)	Stage 1	Stage 2	Stage 3	Total
At 1 January 2020	6,224	52,565	50,060	108,849
Transfer to stage 1	5,495	-9,044	-3,278	-6,827
Transfer to stage 2	-1,505	18,682	-13,716	3,461
Transfer to stage 3	-1,115	-20,205	46,619	25,299
Impairment charges for the period / Reversal of impairment no longer required	-9,249	-8,839	-10,317	-28,405
Change in existing allowances	*-6,374*	*-19,406*	*19,308*	*-6,472*
Subtotal	**-150**	**33,160**	**69,368**	**102,378**
Originated (production)	4,019			4,019
Repayments	-904	-7,095	-2,471	-10,470
Write-offs			-16,319	-16,319
Changes in risk parameters and models	10,632	14,286	8,314	33,233
At 31 December 2020	**13,597**	**40,351**	**58,893**	**112,841**

The loan loss allowance for stage 1 includes an amount of EUR 0.2 million for loan commitments.

(x EUR 1,000)	Stage 1	Stage 2	Stage 3	Total
At 1 January 2019	15,093	12,279	59,372	86,744
Transfer to stage 1	7,418	-7,245	-7,275	-7,102
Transfer to stage 2	-2,291	49,971	-46,803	877
Transfer to stage 3	-893	-9,267	57,276	47,116
Impairment charges for the period / Reversal of impairment no longer required	-9,119	14,160	15,533	20,574
Change in existing allowances	*-4,885*	*47,619*	*18,731*	*61,465*
Subtotal	**10,208**	**59,898**	**78,103**	**148,209**
Originated (production)	4,333	0	0	4,333
Repayments	-1,261	-8,541	0	-9,802
Write-offs	0	0	-21,690	-21,690
Changes in risk parameters and models	-7,056	1,208	-6,353	-12,201
At 31 December 2019	**6,224**	**52,565**	**50,060**	**108,849**

In 2019, the loan loss allowance for stage 1 included an amount of EUR 0.1 million for loan commitments.

AAHG uses impairment models developed by ABN AMRO to calculate expected losses on the mortgage portfolio. For more details, see the 'Risk management' chapter.

Write-offs

When a customer cannot recover from payment arrears, their home is foreclosed and the residual debt is written off. If any payments are received after the residual debt has been fully written off, these are recognised in the income statement within impairment charges.

6 Participating interests in group companies

AAHG's participating interests in group companies are:

(x EUR 1,000)		2020	2019
Quion 9 B.V.	100%	236	236
Oosteroever Hypotheken B.V.	100%	1,134	1,134
Participating interests in group companies		**1,370**	**1,370**

Quion 9 B.V. generated a profit for 2020 of EUR 7.8 million (2019: EUR 10.2 million) and Oosteroever Hypotheken B.V. posted a profit for the year of EUR 4.9 million (2019: EUR 5.3 million). All of these profits are distributed to AAHG in the form of dividend.

Movements in participating interests in group companies can be broken down as follows:

(x EUR 1,000)	Quion 9 B.V.	Oosteroever Hypotheken B.V.	Total
At 1 January 2019	**236**	**1,134**	**1,370**
Profit for the year	10,183	5,337	15,520
Interim and final dividend	-10,183	-5,337	-15,520
At 31 December 2019	**236**	**1,134**	**1,370**
Profit for the year	7,802	4,851	12,653
Interim and final dividend	-7,802	-4,851	-12,653
At 31 December 2020	**236**	**1,134**	**1,370**

7 Property and equipment

This item can be broken down as follows:

(x EUR 1,000)	Leasehold improvements	Equipment	Hardware	**Total**
Accumulated acquisition costs			2,869	2,869
Accumulated depreciation			-2,640	-2,640
At 1 January 2020			**229**	**229**
Investments				
Divestment/disposal				
Depreciation			-100	-100
Accumulated acquisition costs			2,869	2,869
Accumulated depreciation			-2,740	-2,740
At 31 December 2020			**129**	**129**

Property and equipment are depreciated using the straight-line method based on an estimated useful life of between three and five years.

(x EUR 1,000)	Leasehold improvements	Equipment	Hardware	**Total**
Accumulated acquisition costs	849	658	2,856	4,363
Accumulated depreciation	-849	-658	-2,599	-4,106
At 1 January 2019			**257**	**257**
Investments			299	299
Divestment/disposal	-849	-658	-286	-1,793
Depreciation			-326	-326
Accumulated acquisition costs			2,869	2,869
Accumulated depreciation			-2,640	-2,640
At 31 December 2019			**229**	**229**

8 Other assets

This item can be broken down as follows:

(x EUR 1,000)	**2020**	2019
Receivables from group companies	4,403,231	3,479,700
Cash in transit	825,268	471,434
Trade receivables	19,796	25,420
Current account with insurers	40,774	49,851
Other receivables	453,141	398,065
Other assets	**5,742,210**	**4,424,470**

All receivables have a remaining term to maturity of less than three months except for other receivables, which have a remaining term to maturity of between three months and one year.

Receivables from group companies mainly consist of receivables from subsidiaries.

Cash in transit mainly consists of mortgage loans for which money is held in escrow by a civil-law notary.

9 Prepayments and accrued income

This item can be broken down as follows:

(x EUR 1,000)	**2020**	2019
Prepaid expenses	1,909	2,073
Prepayments and accrued income	**1,909**	**2,073**

All prepayments and accrued income have a remaining term to maturity of less than three months, qualifying them as current assets. There was no accrued income in 2020 and 2019.

10 Due to banks

This item can be broken down as follows:

(x EUR 1,000)	**2020**	2019
- Due to ABN AMRO - Funding	142,361,018	143,805,123
- Due to ABN AMRO - Bank accounts	2,340,268	4,340,758
- Due to group companies	401,622	137,911
Due to banks	**145,102,908**	**148,283,792**

ABN AMRO provides AAHG (including its subsidiaries) with funding to issue mortgage loans, AAHG transfers part of the funding to its subsidiaries (EUR 3.4 billion). The contractual term to maturity of this funding runs until the date of cancellation of the funding agreement. As of the date of cancellation of all or part of the funding, AAHG may request further drawings under all or part of the funding agreement to be cancelled until six months after the cancellation date. After this date, no further drawings may be requested under all or part of the funding agreement. This is referred to as the cut-off date.

The expected maturity of this funding is in line with the average liquidity maturity of the mortgage loans. The interest paid on funding is at arm's length. The required funding is reassessed and settled every month.

The item 'due to ABN AMRO – Bank accounts' in the table above concerns the overdraft in the intercompany account with ABN AMRO. The decrease was mainly attributable to a transfer of EUR 5.6 billion between 'cash' and 'due to banks'. For 'cash', see Note 3. This transfer was partially offset by standard cash movements. The term to maturity of this debt is less than three months, so that it qualifies as current.

The item 'due to group companies' is payable on demand.

11 Due to customers

This item can be broken down as follows:

(x EUR 1,000)	2020	2019
Bank savings deposits linked to mortgages	2,350,782	2,315,738
Bank savings deposits not linked to mortgages	14,194	15,859
Savings deposits not linked to mortgages	170,057	142,902
Premium deposit accounts	13,802	17,785
Due to customers	**2,548,834**	**2,492,284**

The maturity of the liabilities can be broken down as follows:

(x EUR 1,000)	Current liabilities	Between one and 5 years	More than 5 years	Total 31 December 2020
Bank savings deposits linked to mortgages	636	15,441	2,334,705	2,350,782
Bank savings deposits not linked to mortgages	14,194			14,194
Savings deposits not linked to mortgages	170,057			170,057
Premium deposit accounts	1,004	95	12,703	13,802
Due to customers	**185,891**	**15,536**	**2,347,408**	**2,548,834**

(x EUR 1,000)	Current liabilities	Between one and 5 years	More than 5 years	Total 31 December 2019
Bank savings deposits linked to mortgages		9,000	2,306,738	2,315,738
Bank savings deposits not linked to mortgages	15,859			15,859
Savings deposits not linked to mortgages	142,902			142,902
Premium deposit accounts	1,100	295	16,391	17,785
Due to customers	**159,861**	**9,295**	**2,323,129**	**2,492,284**

Movements in bank savings deposits linked to mortgages can be broken down as follows:

(x EUR 1,000)	Bank savings deposits linked to mortgages
At 31 December 2019	2,315,738
Deposits	237,023
Interest	86,179
Withdrawal	-288,158
At 31 December 2020	**2,350,782**

The bank savings deposits are linked to mortgage loans, which means that customers cannot demand their immediate payment.

The bank savings deposits not linked to mortgage loans are due to customers.

The savings deposits not linked to mortgage loans are due to insurers.

Customers use premium deposit accounts to pay future premiums for their mortgage loans. At 31 December 2020, the majority of the premium deposit accounts (2020: EUR 12.8 million; 2019: EUR 16.4 million) had an insurer as the counterparty; the remaining part of the premium deposit accounts had a consumer as the counterparty.

12 Other liabilities

This item can be broken down as follows:

(x EUR 1,000)	**2020**	2019
Due to SPEs	10,232,888	14,273,437
Dividends payable	833,147	847,701
Due to group companies	3,826,997	3,384,409
Trade payables and cash in transit	146,935	136,359
Current account with insurers	870,961	705,251
Other liabilities	13,772	14,817
Other liabilities	**15,924,700**	**19,361,974**

Due to SPEs

The legal title to the securitised mortgage loans has been transferred to the SPEs. Since AAHG retained the economic rewards and substantially all risks associated with the mortgage loans, AAHG continued to recognise the securitised mortgage loans in its statement of financial position. In the process of transferring the legal title to the securitised mortgage loans, the SPEs paid the transaction price to AAHG. Since the associated mortgage loans are still recognised by AAHG, a debt to the SPEs has been recognised. The debt to SPEs is reviewed and settled every month.

This liability is based on the amortised cost and term to maturity of the securitised mortgage loans. For an overview of the remaining contractual terms to maturity of the total portfolio, see the 'Risk management' chapter (liquidity risk).

The remaining contractual term to maturity of the other liabilities, excluding amounts due to SPEs, is less than three months; they qualify as current liabilities as a result.

The item 'due to group companies' mainly consists of liabilities to subsidiaries.

13 Accruals and deferred income

This item can be broken down as follows:

(x EUR 1,000)	**2020**	2019
Advance mortgage receivables	22,064	24,915
Interest payable	59	59
Accounts payable	22,128	18,362
Mortgages payable	4,966	5,794
Tax payable	285,949	294,544
Accruals and deferred income	**335,166**	**343,674**

Deferred income relates to the item ‘Advance mortgage receivables’, i.e. customers who have made prepayments on their mortgage. Accruals relate to accrued expenses. All accruals and deferred income have terms to maturity of between three months and one year, qualifying them as current liabilities.

14 Provisions

This item can be broken down as follows:

(x EUR 1,000)	**2020**	2019
Legal provisions	42,096	110,139
Other provisions	650	2,246
Provisions	**42,746**	**112,385**

The level of the provisions is determined based on the best estimate of the expenditure required to settle the obligations and losses at the reporting date. Unless indicated otherwise, provisions are measured at present value. No provision has been recognised if the expenditure required to settle the obligation cannot reliably be estimated.

Euribor

ABN AMRO has sold mortgage loans with floating, often Euribor-based, interest rates to consumers (‘Euribor-Woninghypotheek mortgages’). These rates are increased by a margin charge. Based on the applicable terms and conditions, ABN AMRO has the right to unilaterally adjust the margin charge. After ABN AMRO increased the margin charge in 2012, two class actions and multiple individual cases were brought against ABN AMRO. The central question in these cases is whether ABN AMRO’s contractual right to unilaterally adjust the margin is an unfair term that can be voided.

ABN AMRO lost the class action cases in two instances and decided to appeal to the Dutch Supreme Court. On 22 November 2019, the Supreme Court quashed the ruling of the Amsterdam Court of Appeal in the Euribor collective cases. The case has been referred to another Court of Appeal (The Hague) to be dealt with further. This Court will need to re-examine whether the terms are unfair or not.

On 13 February 2020, ABN AMRO and the foundation Stichting Euribar reached an agreement on a settlement for customers with Euribor-Woninghypotheek mortgages. The key points of the settlement are:

1) compensation for the past (62.5% of the increases in the margin charge in 2009 and 2012, calculated until 1 April 2019 at the latest and increased by statutory interest); and
2) agreement on the bandwidth of the future margin charge (until 1 January 2025, the Euribor margin charge will remain fixed at the current Euribor margin charge of 1.0% (the rate from 2012), and beyond 1 January 2025 the margin charge may be raised to a maximum of 1.2%).

By mid-February 2021, approximately 91% of the customers who were eligible for the settlement had received a personal offer from ABN AMRO. So far, 77% of this group has accepted the proposed settlement. The remaining 9% of the eligible customers are expected to receive a settlement offer in the first half of 2021.

Stichting Stop de Banken was not willing to participate in the settlement agreement and proceeded with the class action. ABN AMRO filed its defence documents with the Court of Appeal in The Hague on 9 March 2021. Thereafter, parties can request an oral hearing or a judgement. ABN AMRO has recognised a provision for the Euribor-bases mortgage cases.

Movements in provisions can be broken down as follows:

(x EUR 1,000)	Legal	Other	Total
At 1 January 2019	**95,341**	**2,293**	**97,634**
Increase in provisions	10,750	1,007	11,757
Utilised during the year	-410		-410
Release in provisions	-405	-1,054	-1,459
Accretion of interest	4,863		4,863
At 31 December 2019	**110,139**	**2,246**	**112,385**
Increase in provisions		458	458
Utilised during the year	-44,897	-511	-45,408
Release in provisions	-25,948	-1,543	-27,490
Accretion of interest	2,802		2,802
At 31 December 2020	**42,096**	**650**	**42,746**

The decrease in provisions was mainly due to the utilisation of the Euribor-related provision.

15 Equity

This item can be broken down as follows:

(x EUR 1,000)	Paid-up and called-up capital	Other reserves	Total
At 1 January 2019	**19**	**5,000**	**5,019**
Profit for the year		858,145	858,145
Interim and final dividend		-847,701	-847,701
At 31 December 2019	**19**	**15,444**	**15,463**
Profit for the year		822,703	822,703
Interim and final dividend		-833,147	-833,147
At 31 December 2020	**19**	**5,000**	**5,019**

The other reserves concern a required minimum amount under the Dutch Financial Supervision Act (EUR 5 million). The application of prudential and liquidity requirements on an individual basis has been waived in accordance with Articles 7 and 8 of the Capital Requirements Regulation (Regulation (EU) No. 575/2013).

Proposed profit appropriation

The Managing Board has proposed to distribute the profit for the year as interim dividend and the remainder from previous years as final dividend. Retained earnings will be added to the other reserves.

16 Irrevocable commitments

Construction facilities are recognised together with an Irrevocable Payment Commitment (IPC) related to the European Single Resolution Fund (SRF) and mortgage offers as irrevocable commitments. The construction facilities amounted to EUR 2.2 billion in 2020 (2019: EUR 2.7 billion). Mortgage offers stood at EUR 3.5 billion (2019: EUR 2.1 billion). The IPC amounted to EUR 20.0 million (2019: EUR 13.3 million).

17 Off-balance commitments and contingent liabilities

Special-purpose entities

ABN AMRO uses securitisation for its funding. In this process, AAHG sells financial assets (mortgage loans) to SPEs, which – for their part – issue notes to investors. The SPEs are separate legal entities. Since AAHG retained the economic rewards and substantially all risks associated with the mortgage loans, AAHG continued to recognise the securitised mortgage loans in its statement of financial position.

18 Remuneration of Supervisory Board and Managing Board

Two members of the Supervisory Board qualify as employees of ABN AMRO. They do not receive any remuneration for their roles as Supervisory Board members. The chair and one member of the Supervisory Board signed a Supervisory Services Agreement and their roles are remunerated. The total remuneration of the members of the Supervisory Board of AAHG was EUR 99,825 in 2020 (2019: EUR 15,881).

The total remuneration of the members of the Managing Board was EUR 882,504 in 2020 (2019: EUR 893,755).

The loans AAHG had granted to the incumbent members of the Managing Board and the Supervisory Board, and the related interest rates, were as follows on 31 December 2020:

(x EUR 1,000)	**2020**	**Average interest rate (%)**	2019	Average interest rate (%)
Loans to members of Managing Board	2,419	2.0	1,968	2.1
Loans to members of Supervisory Board	1,762	2.7	1,944	2.6
Outstanding loans	**4,181**		**3,913**	

In 2020, the members of the Managing Board made repayments in the sum of EUR 52,091. The members of the Supervisory Board repaid EUR 181,964.

19 Net interest income

This item can be broken down as follows:

(x EUR 1,000)	2020	2019
Interest received on mortgage loans	3,590,094	4,035,561
Interest paid on funding	-2,318,621	-2,685,380
Portfolio-related net interest income	1,271,473	1,350,181
Other interest income	566,184	726,815
Other interest expense	-411,907	-608,579
Non-portfolio-related net interest income	154,277	118,236
Net interest income	**1,425,750**	**1,468,417**

Other interest income mainly concerns interest from deposits. Other interest expense mainly concerns amounts due to SPEs. If a customer falls behind on their mortgage loan (> 90 days), interest income is no longer recognised in portfolio-related net interest income.

20 Fee and commission income

This item can be broken down as follows:

(x EUR 1,000)	2020	2019
Service fees	7,943	5,706
Collection fee	43	50
Other fee and commission income	1,010	2,431
Fee and commission income	**8,995**	**8,187**

Fee and commission income mainly concerns management fees for services provided to third parties.

21 Other operating income

This item can be broken down as follows:

(x EUR 1,000)	2020	2019
Servicing fee received from SPEs	5,185	6,191
Other operating income	13,461	8,283
Other operating income	**18,646**	**14,473**

Other operating income mainly concerns reimbursements of costs, charged to the SPEs for services provided to them.

22 Personnel expenses and other general and administrative expenses

This item can be broken down as follows:

(x EUR 1,000)	2020	2019
Personnel expenses	63,293	63,475
Housing, office and IT expenses	19,667	18,662
Services provided by third parties	56,713	49,538
Selling and advertising expenses	3,132	3,150
Statutory levies	93,964	82,381
Other expenses	26,114	26,179
Personnel expenses and other general and administrative expenses	**262,879**	**243,385**

At 31 December 2020, 1,137 people (FTEs) were directly involved in managing the mortgage portfolio (2019: 990 FTEs). Of these, 680 FTE's were employees of ABN AMRO (2019: 620) and ABN AMRO recharges the costs associated with employing them to AAHG on a monthly basis. AAHG does not have any employees of its own. The other FTE's were external hires. Costs for external hires are included in Services provided by third parties.

Other expenses mainly comprise advisory fees and operating expenses. Statutory levies include Dutch banking tax and the European Single Resolution Fund (SRF).

Banks operating in the Netherlands are liable to Dutch banking tax. There are two Dutch banking tax rates: a rate of 0.044% for current liabilities and a rate of 0.022% for non-current liabilities. In addition, banks governed by the Single Resolution Mechanism Directive are expected to contribute to the resolution fund that is administrated by the Single Resolution Board (SRB) of Brussels, Belgium. The purpose of the resolution fund is to facilitate an effective resolution toolkit. The SRB determines a bank's contribution based on its risk-weighted total assets (less a number of deductible items).

23 Other operating expenses

This item can be broken down as follows:

(x EUR 1,000)	2020	2019
Outsourced mortgage operations and affiliated services	99,269	90,032
Other operating expenses	88	52
Other operating expenses	**99,357**	**90,084**

Outsourced mortgage operations and affiliated services are costs incurred for services provided by third parties. Other operating expenses consist of such costs as annual subscription and membership charges.

24 Impairment charges on financial instruments

This item can be broken down as follows:

(x EUR 1,000)	**2020**	2019
Change in impairments	18,985	42,442
Recovery and other	-18,994	-23,362
Impairment charges on financial instruments	**-9**	**19,080**

25 Income tax expense

This item can be broken down as follows:

(x EUR 1,000)	**2020**	2019
Income tax expense	281,014	295,578
Income tax expense	**281,014**	**295,578**

<u>Corporate income tax group</u>
AAHG forms a corporate income tax group with ABN AMRO and several of ABN AMRO's Dutch subsidiaries. Each member bears joint and several liability for the income tax payable by the tax group. Given that ABN AMRO remits tax to the tax authorities, taxes are recognised through AAHG's intercompany account with ABN AMRO in the statement of financial position.

Corporate income tax is due at the highest rate of 25% (2019: 25%). The effective tax rate is 25.5% (2019: 25.6%). No corporate income tax is due on the annual banking tax.

26 Events after the reporting date

On 19th April 2021, ABN AMRO Bank N.V. has accepted a settlement offer from the Dutch Public Prosecution Service (DPPS) in connection with the previously announced investigation by the DPPS into ABN AMRO Bank N.V.'s compliance with its obligations under the Dutch Anti-Money Laundering and Counter Terrorism Financing Act (Wet ter voorkoming van witwassen en financiering van terrorisme, AML/CTF Act) between 2014 and 2020. As part of this settlement, ABN AMRO Bank N.V. paid EUR 480 million. The settlement has no financial impact on AAHG.

Developments involving Euribor-based mortgage loans are addressed in Note 14, 'Provisions'.

Risk management

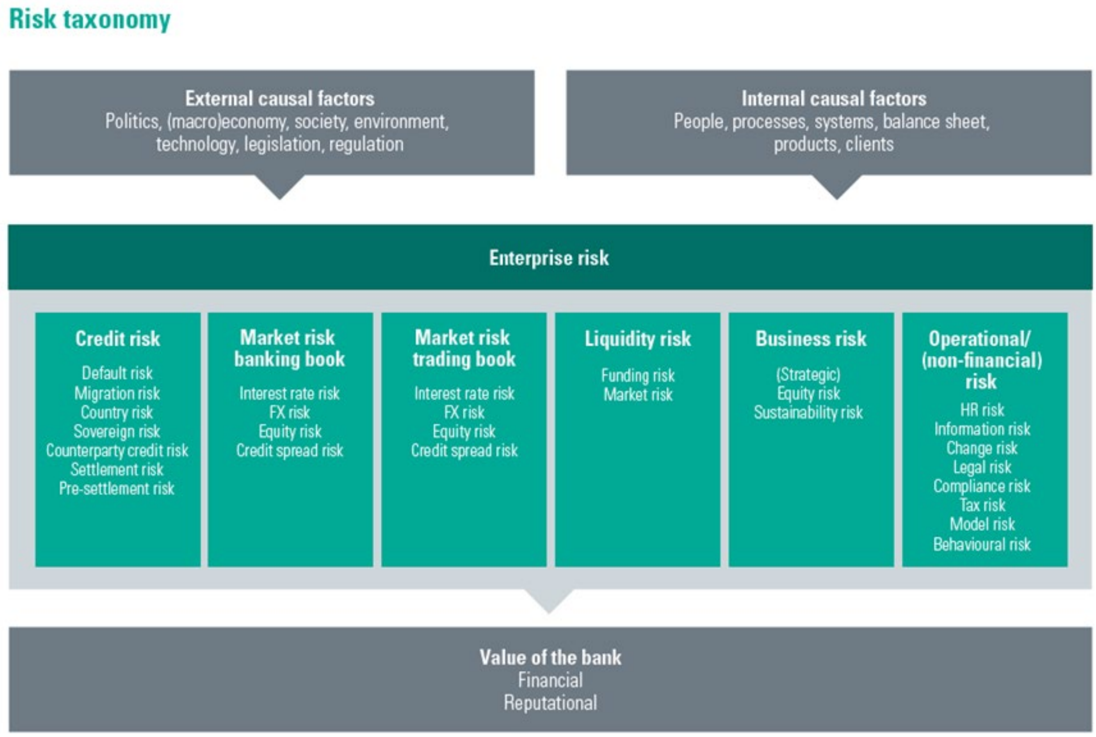
Strategy

In line with ABN AMRO's group strategy AAHG actively seeks to maintain a moderate risk profile for its residential mortgage portfolio. Our ambition to allow our customers to live carefree lives required us to take prompt action in response to the severe economic impact of the COVID-19 pandemic and its implications for our customers. In March 2020, we immediately offered a payment holiday to existing customers who suffered the consequences of the lockdown and we imposed additional requirements for new customers to ensure responsible lending. At the end of 2020, COVID-19 did not have a negative impact on the risk profile of our portfolio.

The following are key elements to keep the risk profile at a moderate level:

- Risk taxonomy
- Risk appetite
- Risk culture
- Risk governance
- Risk measurement

Within the **risk taxonomy**, risks are classified into risk types that might occur at ABN AMRO and its subsidiaries. The taxonomy ensures that all identified material risks are defined and are taken into account in the risk governance framework. It creates a common risk vocabulary, provides a checklist of risk types that are used in risk assessments, and helps to ensure that all material risks are managed and that roles and responsibilities are identified and defined.



The principal risks AAHG incurs are:

- Credit risk
- Market risk banking book (specifically interest rate risk)
- Liquidity risk
- Business risk
- Operational risk
- Compliance risk

Risk appetite refers to the risk level that AAHG is willing to take in order to pursue its strategy. It is regularly evaluated and updated, to ensure alignment with the strategy; our goal is to maintain a moderate risk profile. AAHG's risk appetite statement qualifies as an Entity Risk Appetite Statement (ERAS) and is part of ABN AMRO's Risk appetite framework.

Risk appetite framework

The statements in the Strategic Risk Appetite Statement (RAS) are cascaded into an underlying risk indicator framework at bank, business line, entity and country level. This risk indicator framework consists of statements set for each main and sub-risk type presented in the risk taxonomy. Each statement consists of one or more quantitative and/or qualitative indicators, which are referred to as key risk indicators (KRIs). For every KRI, a limit is set against which the actual risk profile is monitored. If the limit of a KRI is breached, action is required to bring the risk profile back within the limit. To allow for timely action, early warning tools are in place to prevent breaches and/or to engage in a strategic discussion.

Examples of KRIs in AAHG's risk appetite include:

- Return on equity
- Bad-rate new loans
- Portfolio size and specific segments into our portfolio to manage concentration risk
- Cost/income ratio
- Average energy label

AAHG and ABN AMRO address risks at various levels; AAHG's Supervisory Board is provided with and discusses the risk reports on a quarterly basis. As soon as a risk indicator approaches or exceeds a checkpoint or limit, actions are defined and approved in accordance with the relevant policy. AAHG has an Audit & Risk Committee, which is a sub-committee of the Supervisory Board.

Risk culture

AAHG has a continuous focus on risk awareness; this is an integral part of ABN AMRO's risk culture. Strengthening culture in the areas of risk, compliance and integrity was an important objective in ABN AMRO's Strategy Review.

Pursuing a moderate risk profile is embedded in the risk culture by way of communication and training. The risk profile is monitored through performance management. Employees are expected to be familiar with the drivers of AAHG's risk profile and to feel accountable for the risks they take. Employees are increasingly aware that their actions, decisions and behaviours (either as a group or individually) and those of the bank can lead to poor outcomes for AAHG itself or its stakeholders. In the annual work climate survey, more than 90% of employees said that they assess the associated risks before taking a decision. A continuing education tool and training app are used to continuously press home awareness of non-financial risks on a bank-wide basis, while more specific training is also available for specific roles or functions. Employees are also expected to adhere to the ABN AMRO culture principles and to act in accordance with the Code of Conduct. These culture principles are fundamental to everything AAHG does and describe how AAHG acts as a bank, makes decisions and deals with various dilemmas, and - as such - are included in the continuing education tool. The Code of Conduct is posted on ABN AMRO's website. All employees are expected to commit to the Code of Conduct by digitally signing it every year.

Risk governance

The **Risk Governance Charter** defines ABN AMRO's risk governance and decision framework (delegated authorities and mandates). The Risk Governance Charter is in place to support efficient and effective risk control management throughout, and at all levels of, the bank. The Risk Management function operates under the direct responsibility of the Chief Risk Officer, who is a member of the Executive Board of ABN AMRO. The Executive Board of ABN AMRO bears overall responsibility for the risks that ABN AMRO and its subsidiaries incur. AAHG operates within the framework described in the Risk Governance Charter and the Entities Risk Charter. The Entities' Risk Charter defines the risk governance, risk organisational structure, reporting lines, entities' committee structures, responsibilities and composition of the committees, delegation of mandates, escalation requirements and the key roles and responsibilities of the risk function. The Charter aims to sustain effective decision making on risk identification, risk-taking, risk monitoring, risk management and risk mitigation in the entities. Within the boundaries of the Risk Governance Charter and the Entities' Risk Charter AAHG, has formulated its own entity specific Risk Governance Charter, including the Local Business Risk Committee, the Mortgage Credit Committee, the Credit Cycle Management Committee and the Client Acceptance and Review Committee. Risk decisions are taken in the relevant risk committees within the mandates of this Charter.

The **three-lines-of-defence** principle entails a clear division of risk management activities and responsibilities at different levels within ABN AMRO and at different stages in the lifecycle of risk exposures.
The three lines of defence model aims to clarify the interrelation between risk takers and the different internal control functions, and provide clarity for all employees within AAHG with regards to their risk management responsibilities. AAHG operates in the first line of defence (LoD) and is responsible for risk ownership and for the design and execution of effective and efficient controls. The activities in the second LoD have been outsourced to ABN AMRO's Risk Type Owners such as Credit Risk, Operational Risk, Legal and Compliance. The-three-lines-of-defence principle is explained in the figure below.

Risk measurement

AAHG uses risk models and systems developed by ABN AMRO, for instance to determine provisions and capital. Service level agreements are in place between ABN AMRO in its capacity as the supplier and AAHG in its capacity as the customer to ensure that AAHG can rely on the services provided by ABN AMRO.

ABN AMRO develops and uses internal models to quantify the risk for most risk types in the risk taxonomy. The models for credit, operational, market and liquidity risk are most widely used and allow for measuring the level of risk. They support day-to-day decision-making as well as periodic monitoring and reporting on developments in the bank's portfolios and activities. In most cases, models quantify the probability and severity of an event, i.e. the likelihood that an event will occur and the loss the bank may suffer as a consequence of that event. This serves as the basis for ABN AMRO's internal risk controls and forms key input for the calculation of the minimum regulatory capital requirements of the Basel framework (regulatory capital). AAHG is taking a one-step approach to implementing the new **Definition of Default**. This means that the new definition of default and the updated credit risk models will be implemented simultaneously. Both the definition of default and the updated credit risk models, to calculate PD, LGD and EAD are developed in line with the EBA Guidelines and Regulatory Technical Standards. Their implementation is subject to ECB approval, which is expected in the second quarter of 2021.

New models require approval before they can be implemented and applied. Within the bank, the use (or continued use) of a model is subject to the approval of the Methodology Acceptance Group (MAG), a sub-committee of the Group Risk Committee. If required, external approval is sought from the regulator.

The modelling departments develop models in close cooperation with AAHG business and risk experts. The models are reviewed annually in principle. This means that models are back-tested against historical data and, where relevant, are benchmarked against external studies.

The independent model risk management department validates internal models. The model risk management framework, which includes model validation standards and procedures, ensures that models are validated independently. Model data, methodology, performance and implementation are checked based on these standards and reviewed against internal and regulatory requirements.

AAHG uses **stress testing** and scenario analysis as key risk management instruments. In doing so, it reviews profitability and capital from a mortgage portfolio perspective in various scenarios on an annual basis.

Credit risk

Despite the COVID-19 pandemic, AAHG's credit risk showed positive developments over the past year thanks to rising house prices and falling interest rates. In 2020, the Dutch housing market was characterised by significantly higher house prices than in 2019 (up 8.4%) and a housing shortage. Credit quality indicators were not impacted by the COVID-19 pandemic and remained positive.
The mortgage portfolio decreased by EUR 1.4 billion. The share of redeeming mortgages increased to 38% of the mortgage portfolio at 31 December 2020 (31 December 2019: 34%).

Breakdown of mortgage loans by type of loan

(x EUR 1,000)	2020	%	2019	%
Interest-only	62,552,140	45	65,225,322	46
Redeeming mortgages (annuity / linear)	52,990,718	38	48,257,274	34
Savings	11,741,502	8	13,557,041	10
Life (investment)	7,775,905	6	9,245,965	7
Other	4,319,697	3	4,534,992	3
At 31 December	**139,379,962**	**100**	**140,820,594**	**100**

The total of EUR 139.4 billion is the gross carrying amount, excluding loan loss allowances

The government-guaranteed (NHG) share of the residential mortgage portfolio fell slightly to 22% at 31 December 2020 (31 December 2019: 23%). The share of origination backed by government guarantees was 19%, which was lower than last year (2019: 22%).

Mortgages to indexed market value (LtMV)

(x EUR 1,000)	2020	%	2019	%
Government-guaranteed mortgages (NHG)	31,195,053	22	32,919,391	23
< 50%	35,459,019	25	31,934,266	23
50% - 80%	51,993,407	37	49,908,512	35
80% - 90%	12,512,060	9	15,262,598	11
90% - 100%	7,185,250	6	9,273,857	7
> 100%	1,035,174	1	1,521,970	1
At 31 December	**139,379,962**	**100**	**140,820,594**	**100**

The total of EUR 139.4 billion is the gross carrying amount, excluding loan loss allowances

AAHG's credit risk on NHG loans is low because of the government guarantee. As a mortgage lender, AAHG incurs a risk of 10% under the scheme of government-guaranteed mortgage loans granted with effect from 1 January 2014. Government guarantees expire in equal instalments.

Rising house prices and restrictions on the maximum Loan to Market Value (LtMV) for new mortgages led to a slight improvement in the average LtMV, both for NHG-guaranteed and unguaranteed loans. The current market value is determined by applying periodic indexation to the market value as specified in the valuation report. Indexation is based on house price indices published by Statistics Netherlands (CBS). Increases in the price index are subject to a haircut, while decreases are not, which results in a better estimate of the actual house price.

The gross carrying amount of mortgages with an LtMV above 100% continued to drop, landing at EUR 1.0 billion (31 December 2019: EUR 1.5 billion). We would note that LtMVs in excess of 100% do not necessarily mean that the related customers are in financial difficulties.
AAHG actively approaches customers with interest-only mortgages or mortgages with any other uncertain repayment option in combination with high LtMV levels. AAHG informs them of the risks associated with their

interest-only mortgage and discusses possible actions customers can take to keep affording their mortgage after events such as retirement, further restrictions on mortgage interest tax relief and at loan maturity.

Mortgage indicators

(x EUR 1,000)	2020	2019
Gross carrying amount	139,379,962	140,820,594
- of which guaranteed mortgages (NHG)	31,195,053	32,919,391
Credit quality indicators		
Past due ratio	0.6%	0.9%
Stage 3 Impaired ratio	0.8%	0.7%
Stage 3 Coverage ratio	5.6%	5.1%
Mortgage indicators		
Average LtMV (indexed)	61%	64%
Average LtMV - excluding NHG loans (indexed)	59%	62%
Total risk mitigation/gross carrying amount	157%	154%
Cost of risk (year to date, in bps)	1	1

The stage 3 impaired ratio slightly increased as a result of the application of an Unlikely-to-Pay (UtP) trigger for customers with interest-only mortgages and an expected refinancing problem.

Managing credit risk

AAHG's credit risk is managed based on ABN AMRO's Programme Lending methodology and a policy framework consisting of a bank-wide credit risk policy and a detailed credit risk policy for mortgage loans. These risk policies cover all phases of the credit cycle, from product planning to origination to customer management, prevention, and early and late arrears. Management is responsible for managing and monitoring credit risk (first line of defence). The business identifies, assesses, monitors and reports potential and actual credit risk losses within the defined credit risk framework. Credit risk is monitored on an ongoing basis to ensure that credit risk developments remain within the set limits of the risk appetite. Customers with payment arrears are transferred to our collection partners, who help to identify the root cause of a payment problem and, if possible, resolve these problems.

In 2020, customers with residential mortgage loans who were financially affected by the COVID-19 lockdown were offered a three-month payment holiday, with the option for a three-month renewal.

The aforementioned programme for interest-only mortgages includes an affordability test to determine whether a customer can refinance their mortgage at maturity. Based on the results of the affordability test, customers with a significant increase in credit risk are transferred to stage 2 or stage 3.

Uncollateralised portions of mortgage loans

(x EUR 1,000)	2020	2019
Loans and advances customers	139,267,410	140,712,555
Collateral value	221,007,581	212,090,641
Collateral bank savings	2,356,056	2,315,648
Other guarantees (e.g. NHG)	725,170	1,091,208
Surplus value of collateral	-85,905,305	-77,530,435
At 31 December	**1,083,908**	**2,745,493**

The uncollateralised portions of loans in the mortgage portfolio decreased as a result of rising house prices.

Uncollateralised portions of credit-impaired mortgage loans (>90 days and covered by an impairment)

(x EUR 1,000)	**2020**	2019
Credit-impaired portfolio	1,046,149	990,539
Collateral value	1,315,503	1,144,787
Collateral bank savings	9,362	11,033
Other guarantees (e.g. NHG)	4,408	7,800
Surplus value of collateral	-323,628	-241,939
At 31 December	**-40,504**	**-68,858**

The credit-impaired portfolio increased due to the application of new Unlikely-to-Pay triggers to parts of the mortgage portfolio. However, the uncollateralised portions of the credit-impaired portfolio decreased as a result of rising house prices.

A mortgage loan is past due if a customer fails to make a payment on the contractual due date or if the counterparty has exceeded an agreed limit. AAHG measures days past due regardless of the amount.

Breakdown of past due mortgage loans (<90 days)

(x EUR 1,000)	**2020**	2019
Mortgages	139,379,962	140,820,594
-of which not past due	138,084,579	138,946,691
Breakdown by days past due:		
≤ 30	1,101,983	1,651,217
> 30 & ≤ 60	128,963	155,442
> 60 & ≤ 90	64,437	67,244
At 31 December	**1,295,383**	**1,873,903**

The amount of EUR 139.4 billion is the gross carrying amount, excluding loan loss allowances

This breakdown shows that past due mortgages developed positively overall in 2020.

Forbearance, past due credit exposures and loan loss allowances

Mortgage loans at risk are primarily exposures for which there are signs indicating that the customer may become credit-impaired in the future. Loans at risk are classified into different risk categories for individual customers and into days-in-arrears buckets for groups of aggregated customers in order to optimise monitoring and review of these loans.

Forbearance

Forbearance is the process of making concessions to customers who are or will soon be experiencing financial difficulties, with the intention of restoring their payment capacity. A forborne asset is any loan that has been entered into with a customer who is in, or about to face, financial difficulties, and that has been refinanced or modified on terms and conditions that we would not have accepted if the customer had been financially healthy.

Forbearance measures can be applied to mortgages on which the customer has already defaulted, as well as to contracts that are still performing.

A mortgage will cease to qualify as forborne only when all the following conditions have been met:
- The mortgage is considered performing;
- A minimum probation period of two years has passed since the last forbearance measure and/or the date the forborne contract was considered performing (whichever is later);
- Regular and timely payments of more than an insignificant amount of the principal or interest have been made during at least half of the probation period;
- The customer does not have any contract, within the credit agreement, that is more than 30 days past due at the end of the probation period.

As all customers who were granted a COVID-19 payment holiday were classified as forborne, there was a sharp increase in forborne assets.

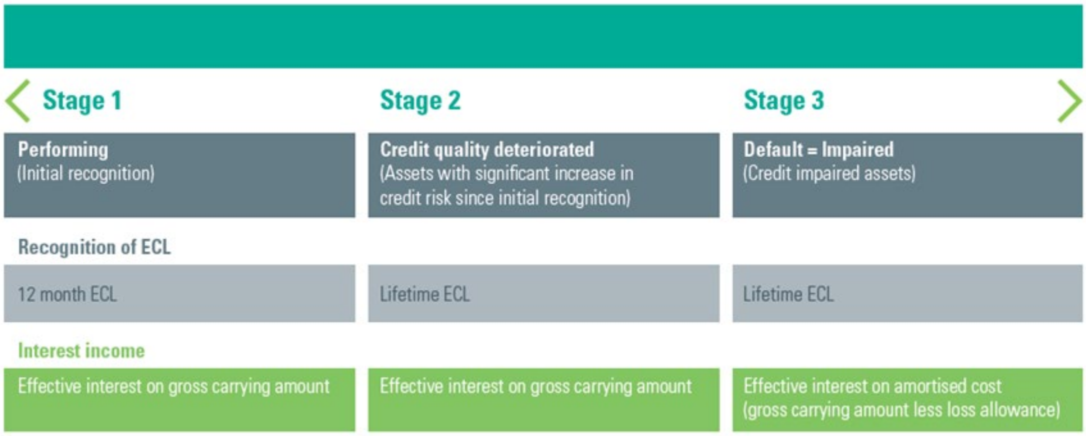
(x EUR 1,000)	**2020**	2019
Total forborne assets	3,281,655	795,770
Forborne assets not past due and not stage 3	2,772,041	362,792
Forborne assets past due but not stage 3	127,160	70,994
Impaired forborne assets	382,453	361,984
Allowance (collective)	30,222	17,770

Past due credit exposures

A mortgage loan is past due if a customer fails to make a payment on the contractually agreed due date or if the customer has exceeded an agreed limit. AAHG uses instalments past due as a proxy for days past due.

Accounting policy for measuring loan loss allowances

AAHG recognises loan loss allowances based on the expected credit loss model (ECL) of IFRS 9, which is designed to be forward-looking. The IFRS 9 impairment requirements are applicable to mortgage loans measured at amortised cost, loan commitments and financial guarantee contracts. These mortgage loans are divided into three groups, depending on the stage of credit quality deterioration:



Stage triggers

AAHG uses quantitative and qualitative stage triggers to determine whether a mortgage should be classified as stage 1 or stage 2.

Quantitative stage triggers

The key quantitative metric determining when a mortgage loan is transferred from stage 1 to stage 2 is the deterioration of the lifetime probability of default (LPD) from the date of origination to the reporting date. The LPD represents the likelihood that a customer will default during the lifetime of the mortgage loan and depends on credit risk drivers such as product characteristics (e.g. repayment and interest terms, term of the product), the financial condition of the customer, the number of days past due and future developments in the economy. If the LPD deterioration of a customer is above a modelled portfolio threshold, the customer is transferred from stage 1 to stage 2.

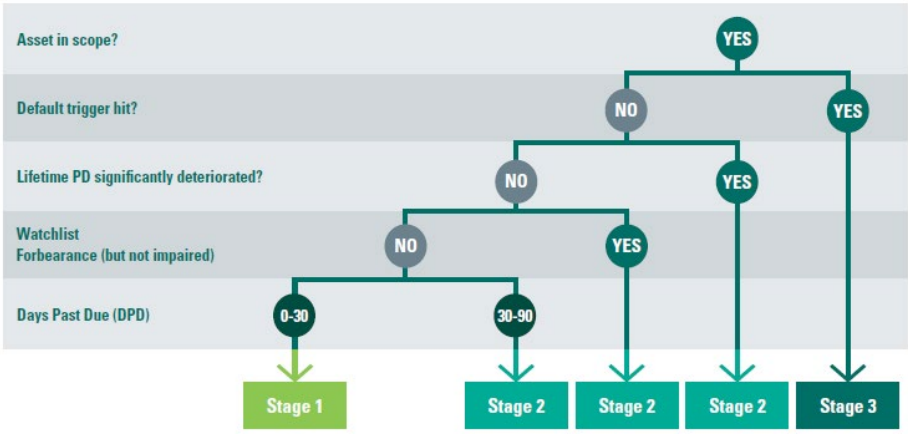
Qualitative stage triggers

When a mortgage loan meets one of the following qualitative triggers, the bank will transfer the instrument from stage 1 to stage 2:

- Forborne status of a borrower;
- Watch status of a borrower. AAHG assigns watch status to customers with an increased credit risk. This process allows for intensive monitoring, early detection of deterioration in the credit portfolio and appropriate follow-up measures;
- Non-performing status of a borrower (but not in default);
- More than 30 days past due, based on number of instalments past due.

A transfer to stage 3 will always be the result of defaulting. A default is considered to have occurred when one of the default triggers (e.g. Unlikely-to-Pay (UtP), distressed debt restructuring, bankruptcy or fraud) has occurred. In addition, 90 days past due is used as a backstop for default.

The staging model can be summarised as follows:



Favourable changes in credit risk are recognised consistently with unfavourable changes in credit risk, except when applying a probation period to financial instruments that are forborne or more than 30 days past due. Forborne mortgage loans are only transferred back from stage 2 to stage 1 after a two-year probation period. Stage 3 forborne instruments are transferred back to stage 2 consistently with other defaulted instruments. A three-month probation period is applied to transfers of 30-day past due financial instruments from stage 2 to stage 1.

Calculation method

The amount of expected credit loss allowances is based on the probability-weighted present value of all expected cash shortfalls over the remaining life of the mortgage loan for exposures both presented and not presented in the statement of financial position. AAHG, using the models of ABN AMRO, calculates credit loss allowances on a collective basis. Collective 12-month ECL (stage 1) and LECL (stage 2 and 3) for mortgage loans that have similar credit risk characteristics are clustered into segments and collectively assessed for impairment losses (see the section entitled 'Quantitative stage triggers'). A collective impairment calculation approach based on individual parameters is applied. ABN AMRO has models to quantify the Probability of Loss (PL), Loss Given Loss (LGL) and Exposure at Loss (EAL) for the purposes of calculating the collective 12-month ECL and LECL for these mortgage loans.

AAHG defines the lifetime as the maximum contractual period over which the bank is exposed to credit risk. This will not stretch beyond the maximum contractual period, even if a longer period is consistent with business practices.

Forward-looking information

Three different scenarios of future economic developments are incorporated into the IFRS 9 expected credit loss calculation and the probability-weighted risk stage determination (at 31 December 2020: baseline 50%, up 10%, down 40%). To reflect the more negative economic outlook following the stricter Covid-19 measures imposed by the Dutch government in the fourth quarter of 2020, the weighting of the negative scenario was increased to 40% on 31 December 2020. The scenarios themselves are also strongly influenced by recent developments relating to Covid-19. These scenarios are developed by ABN AMRO Group Economics at least quarterly and reviewed at each reporting date. Macroeconomic variables (e.g. GDP, unemployment rate, 10-year government bond yield, house price index) forecast by ABN AMRO Group Economics are used for the expected credit loss calculation and are chosen per specific segment and based on statistical relevance, such as credit risk drivers and expert judgement of the business. ABN AMRO has aligned its forward-looking scenarios with those used in the budgeting process. Specific forecasts of macroeconomic variables are made for two to three years; subsequent periods are gradually aligned to the long-term average.

Impairments

(x EUR 1,000)	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount	129,566,619	8,767,194	1,046,148	139,379,962
Allowances for credit losses	12,998	50,702	49,141	112,841
Coverage ratio	0.0%	0.6%	4.7%	
Stage ratio	93.0%	6.3%	0.8%	

Of the total exposure, 7.0% can be classified as stage 2 or stage 3. The total loan loss allowances amounted to EUR 112.8 million. Divided over the different stages a management overlay is recorded for an amount of EUR 15.3 million. The overlay has been taken to cover the refinancing risk of interest-only mortgages.

Credit quality by internal rating scale mapped to stages

The probability of default (PD) shows the likelihood that a customer will default within a one-year time horizon. Mortgage products with the same characteristics are pooled and a PD is assigned to each pool and expressed as an internal uniform counterparty rating (UCR).

(xEUR 1,000)	PD scale	UCR range	Stage 1	Stage 2	Stage 3	Total
Investment grade	0.0000% - < 0.0346%	1	9,317,739	169,826		9,487,565
	0.0346% - < 0.1265%	2	65,606,948	1,576,901		67,183,849
	0.1265% - < 0.4648%	3	46,493,821	2,471,975		48,965,796
Sub-investment grade	0.4648% - < 2.2249%	4	7,171,139	2,013,991		9,185,130
	2.2249% - < 19.9706%	5	837,359	2,415,188		3,252,547
	19.9706% - < 100%	6+	139,614	119,314		258,927
Default	100%	6 - 8			1,046,148	1,046,148
Total			**129,566,619**	**8,767,194**	**1,046,148**	**139,379,962**

Concentration risk on ABN AMRO deposits

No collateral has been secured for the deposits held with ABN AMRO (2020: EUR 13.5 billion; 2019: EUR 17.5 billion). Partly in view of the net debt exposure to ABN AMRO and the statement of joint and several liability received from ABN AMRO, the risk incurred by AAHG qualifies as minor.

Of deposits held with ABN AMRO Bank N.V., none has a term to maturity of less than three months (2019: EUR 0). EUR 4.0 billion relates to deposits with a term to maturity of between three months and one year (2019: EUR 4.0 billion) and EUR 7.5 billion to deposits with a term to maturity of between one year and five years (2019: EUR 11.5 billion). The remaining amount relates to deposits with a term to maturity of more than five years. The average interest rate on the deposits is 0.26% (2019: 0.25%).

Maximum credit risk

The maximum credit risk that AAHG incurred was EUR 169.6 billion (2019: EUR 175.4 billion), consisting of EUR 139.4 billion in mortgage loans (2019: EUR 140.8 billion), EUR 13.5 billion in ABN AMRO deposits (2019: EUR 17.5 billion), EUR 11.0 billion in other assets (2019: EUR 12.3 billion) and EUR 5.7 billion in irrevocable commitments (2019: EUR 4.8 billion).

Market risk

Market risk is the risk of the market value of the mortgage portfolio or the earnings of AAHG falling because of unfavourable market developments. The market risk of the mortgage portfolio consists predominantly of interest rate risk.

The main sources of interest rate risk related to the mortgage portfolio are the maturity mismatch between the mortgages (assets) and their funding (liabilities), including those resulting from differences in actual versus predicted customer behaviour.

AAHG has a funding agreement with ABN AMRO to finance the mortgage loans issued. AAHG pays ABN AMRO a funds transfer price (FTP) for financing the mortgage loans. The FTP is considered an at arm's length funding price that makes allowance for interest rate risk and liquidity risk stemming from the mortgage contracts. For this reason, as part of this agreement, market-risk-type interest rate risk, related to such aspects as customer behaviour, is hedged by AAHG via the agreement with ABN AMRO.

The interest maturities of the mortgage portfolio, including the related weighted average interest rates, can be broken down as follows:

(x EUR 1,000)	**2020**	**%**	2019	%
Short-term (less than 3 months)	7,289,301	1.8	8,424,027	1.9
Long-term (between 3 months and 1 year)	4,913,675	3.1	6,366,628	3.2
Long-term (between 1 and 5 years)	22,555,156	3.1	22,813,359	3.5
Long-term (more than 5 years)	104,621,829	2.5	103,216,580	2.7
At 31 December	**139,379,962**		**140,820,594**	

The interest rate paid on the funding is in line with market rates.

ABN AMRO uses securitisation as a funding tool and for capital management purposes. In this process, AAHG transfers the legal title to financial assets (mortgage loans) to an SPE, which – for its part – issues RMBS notes to investors. AAHG's proceeds from the sale of financial assets (mortgage loans) to the SPE are placed in a deposit with ABN AMRO.

The maturities of the deposits related to the RMBS programme held with ABN AMRO, including the related weighted average interest rates, can be broken down as follows:

(x EUR 1,000)	**2020**	**%**	2019	%
Short-term (less than 3 months)				
Long-term (between 3 months and 1 year)	4,000,000	0.0	4,000,000	0.0
Long-term (between 1 and 5 years)	7,532,500	0.3	11,532,500	0.3
Long-term (more than 5 years)	2,000,000	0.6	2,000,000	0.8
At 31 December	**13,532,500**		**17,532,500**	

The interest rate is based on three-month Euribor plus a margin.

A debt to the SPE has been recognised because AAHG retained all the economic risks and rewards associated with the mortgage loans. This debt mirrors the amortised cost and remaining contractual terms to maturity of the securitised mortgage loans.

Another key aspect of interest rate risk is the difference between actual and predicted customer behaviour, mainly with respect to prepayments. ABN AMRO has developed a behavioural model to predict prepayments and penalties specifically for the risk of prepayments. Product conditions also contribute to managing the prepayment risk, e.g. by limiting annual penalty-free prepayments. Prepayment penalties are transferred to Asset and Liability Management (ALM) at ABN AMRO and are part of the FTP framework described above.

The prepayment ratio has risen over the past few years, particularly due to falling interest rates. For many customers, prepayments are more cost-effective than savings and the recovery of the housing market has led to a significant increase in people moving house. The expected repayment ratio for the coming months and years is highly dependent on developments in interest rates. Although AAHG expects the growth in the prepayment ratio to level out, the ratio will stay high from a historic perspective as long as interest rates remain low.

Fair value

(x EUR 1,000)	**2020 Carrying amount**	**2020 Fair value**	2019 Carrying amount	2019 Fair value
Financial assets				
Cash	2,586,380	2,586,380	5,350,882	5,350,882
Loans and receivables - banks	16,359,967	16,622,145	20,117,993	20,393,568
Loans and receivables - customers	139,267,410	151,342,259	140,712,555	150,653,662
Other assets	5,742,210	5,882,801	4,424,470	4,529,735
Prepayments and accrued income	1,909	1,909	2,073	2,073
Financial liabilities				
Due to banks	145,102,908	145,102,908	148,283,792	148,283,792
Due to customers	2,548,834	2,706,480	2,492,284	2,510,420
Other liabilities	15,924,700	16,783,958	19,361,974	20,696,190
Accruals and deferred income	335,166	335,166	343,674	343,674

The fair value of current financial assets and liabilities is considered to be virtually the same as their carrying amount. The difference is of minor significance.

The fair value of financial assets and non-current liabilities is based on estimates. The estimates are based on certain assumptions regarding the term to maturity, the timing of future cash flows and the discount rate.

The fair value of the mortgage portfolio (recognised within 'Loans and advances - customers') has been determined by calculating the discounted cash flows, which were estimated based on the average of all mortgage loan interest rates, by maturity and by risk category on 31 December 2020, using online public information.

Liquidity risk

Liquidity risk is the risk that actual and potential payments or collateral posting obligations cannot be met on a timely basis, or only at excessive costs. There are two types of liquidity risk: funding liquidity risk and market liquidity risk. Similar to interest rate risk, both types of liquidity risk are centrally managed by the ALM and Treasury departments of ABN AMRO. AAHG uses the FTP to transfer liquidity risk to ABN AMRO, enabling central monitoring and management.

The remaining contractual terms to maturity of the mortgage loans can be broken down as follows:

(x EUR 1,000)	**2020**	2019
Short-term (less than 3 months)	182,453	218,546
Long-term (between 3 months and 1 year)	122,991	165,171
Long-term (between 1 and 5 years)	2,316,029	2,101,076
Long-term (more than 5 years)	136,758,489	138,335,801
At 31 December	**139,379,962**	**140,820,594**

AAHG's proceeds from the transfer of the legal title to financial assets (mortgage loans) to the SPE are placed on deposit with ABN AMRO. The contractual term of the deposit (2020: EUR 13.5 billion; 2019: EUR 17.5 billion) corresponds to that of the RMBS notes issued by the SPE. For an overview, see the overview of the notes Dolphin Master Issuer B.V. has issued in the next section.

AAHG has signed a loan agreement with ABN AMRO for EUR 147.5 billion. ABN AMRO has issued a statement of joint and several liability for AAHG, which means that ABN AMRO guarantees all of AAHG's obligations. ABN AMRO cannot cancel the loan agreement for no valid reason.

Securitisation

ABN AMRO uses securitisation for funding and liquidity purposes. In this process, AAHG transfers the legal title to financial assets (mortgage loans) to an SPE, which – for its part – issues RMBS notes to investors.

The extent to which the underlying mortgage loans still meet the agreed criteria of a securitisation programme and whether the mortgage volume is still at the target level is determined on a monthly basis. A change in an existing mortgage loan can cause a mortgage to no longer meet the agreed criteria, which results in AAHG repurchasing the loan. As soon as the volume of the securitised portfolio drops below the target level, AAHG will sell financial assets (i.e. mortgage loans) to the SPE in order to reach the target level.

The issued notes are shown below. Step-up date refers to the first occasion that the issuer of the notes has the opportunity to repurchase the notes. The contractual term will expire in 2099.

Margin refers to the three-month Euribor rate. Step-up margin refers to the margin applied if the contract is continued after the step-up date. Denomination refers to the amount per issued note.

Dolphin Master Issuer B.V.

(x EUR 1,000)	Isin	FORD	Margin	Step-up margin	Denomi-nation	Opening balance	Issued 2020	Redeemed / Cancelled 2020	Closing balance
Series 2010-I									
Class A3	XS0495571910	28 Mar 2030	1.15%	2.00%	50	1,000,000	-	-	1,000,000
Class A4	XS0495572991	28 Mar 2040	1.15%	2.00%	50	1,000,000	-	-	1,000,000
Series 2015-1									-
	XS1199502797	28 Sep 2020	0.35%	0.70%	50	2,000,000	-	2,000,000	-
	XS1199502870	28 Sep 2021	0.40%	0.80%	50	2,000,000	-	-	2,000,000
	XS1199502953	28 Sep 2022	0.45%	0.90%	50	1,279,000	-	-	1,279,000
Series 2015-3									-
	XS1334170872	28 Sep 2022	0.45%	0.90%	50	500,000	-	-	500,000
Series 2016-1									-
	XS1385037129	28 Sep 2020	0.35%	0.70%	50	2,000,000	-	2,000,000	-
	XS1385038283	28 Sep 2021	0.40%	0.80%	50	2,000,000	-	-	2,000,000
	XS1385038796	28 Sep 2022	0.45%	0.90%	50	2,000,000	-	-	2,000,000
	XS1385037988	28 Sep 2023	0.50%	1.00%	50	1,678,500	-	-	1,678,500
Series 2017-1									-
	XS1688694287	28 Sep 2022	0.50%	0.50%	50	550,000	-	-	550,000
	XS1688694790	28 Sep 2022	0.75%	0.75%	50	700,000	-	-	700,000
	XS1688694527	28 Sep 2022	1.00%	1.00%	50	575,000	-	-	575,000
	XS1688694360	28 Sep 2022	8.00%	16.00%	50	250,000	-	-	250,000
Total						**17,532,500**	**-**	**4,000,000**	**13,532,500**

No new securitisation programmes were initiated in 2020 and there were no issuances under the existing programme.

Since AAHG retained the economic rewards and substantially all risks associated with the mortgage loans, AAHG continued to recognise the securitised mortgage loans in its statement of financial position.

Business risk

Business risk is the risk that business earnings and franchise value will decline and/or deviate from expectations because of uncertainty in business income or in the expenses needing to be incurred to generate business income.

Sustainability risk

AAHG reviews physical risks associated with the mortgage portfolio based on different climate scenarios. This type of review is still in its infancy. Physical risk relates to the physical consequences of climate change, including drought, flooding and global warming. Flooding and drought can have both a direct and an indirect impact on our mortgage portfolio. The direct impact will result from flooding or drought causing damage to properties. The indirect impact will manifest itself through the market and the macro economy.

AAHG will continue to offer a sustainability discount on mortgages, integrating the sustainability of homes in its advisory reports and training advisers to become Sustainable Living Advisers. The aim is to improve the average energy rating of the portfolio. As it stands, the average energy rating of our portfolio is C (December 2020), the share of homes with an A rating is 17% (December 2019: 14%).

Operational risk

Running a mortgage business means incurring operational risk. Operational risk is the risk of losses due to inadequate or incorrect internal processes, caused by people, systems or the external environment.

AAHG has a framework in place to help prevent and manage operational risks on a consistent basis. This framework, which is used bank-wide within ABN AMRO, has seen further improvements over the past few years.

Managers are responsible for managing operational risks. They are facilitated by the ABN AMRO risk management framework. Various levels within AAHG and ABN AMRO periodically report on the operational risk and the measures taken to minimise it. The risks are documented using the ABN AMRO registration system.

Know Your Client (KYC) and Customer Due Diligence (CDD)

Before entering into and during business relationships, AAHG carries out due diligence on its clients and third parties such as agents, intermediaries and suppliers. This is done using a risk-based approach, aimed at minimising the risk of being involved in or associated with money laundering, terrorism financing, corruption or tax evasion. For KYC and CDD purposes AAHG uses systems developed by ABN AMRO and several procedures that are performed centrally at ABN AMRO.

Banks are considered gatekeepers of the financial system, which is a responsibility that ABN AMRO and AAHG take very seriously. ABN AMRO, including AAHG, invests significant resources in fulfilling its role as gatekeeper in general and specifically in combating financial crime, and works closely with regulators, governments, other banks and other authorities. ABN AMRO has further increased its ongoing efforts to strengthen its Anti Money Laundering remediation programmes in order to be compliant with anti-money laundering and anti-terrorist financing legislation. ABN AMRO has implemented multiple remediation programmes, including for remediating the Retail client portfolio, which are ongoing. AAHG is further strengthening the necessary processes, as well as in further improving systems required to assist efforts to combat financial crime. On a general note, all remedial action needed to ensure full, bank-wide compliance with legislation will be taken, whenever necessary.

Information risk

Information risk is defined as the risk of loss due to breach of confidentiality, failure of integrity systems and data, inappropriateness or unavailability and destruction of systems and data or inability to change information technology (IT) within a reasonable time and with reasonable costs when the environment or business requirements change (i.e. agility). This includes security risks resulting from inadequate or failed internal processes or external events including cyber-attacks or inadequate physical security.

AAHG has a security control framework in place to achieve a coherent system in which People, Process & Technology are aligned with Confidentiality, Integrity & Availability objectives. Key Risk Indicators (KRI's) on IT/IS are defined to achieve a moderate risk profile. AAHG is in control by

- periodically determining the key risks, based on the threat landscape and the KRI's
- Restating the key controls, based on the key risks
- Monitoring the key controls.

The set of key controls include a.o. Business Continuity, Security Awareness, Risk Assessment and Third Party Risk Management, Access Management and various IT security measures.

At the beginning of 2020 AAHG became aware of a number of some urgent issues following a IT network audit and a cyber-security assessment. Therefore IT started the program initiative "Duurzaam Veilig", in cooperation with CISO (Chief Information Security Office) to move to a sustainable secure IT environment. During the year Duurzaam Veilig enlarged her scope with the key IT/IS controls to increase the quality of these controls. By the end of the year the controls were improved conform the ambition. Parts of Duurzaam Veilig will continue to implement in 2021.

A big incident took place in December 2020 which resulted in temporary outage to (part of) the IT systems. It took a full business day to recover. The impact on business was however limited. AAHG investigated root cause and started to improve their resilience, and this initiative is expected to be finalized in the first half of 2021.

Compliance risk

Compliance risk is defined as the risk of failure to comply with legislation and regulations, self-regulatory organisational standards, values and business principles, and codes of conduct or generally accepted market standards governing AAHG's services and activities. Failure to comply can result in security risks and incidents, but also in financial losses and reputation damage arising from financial or other crime, or misconduct or illegal actions on the part of customers, the bank or its employees.

AAHG is expected to meet stringent regulatory requirements and to mitigate its compliance risk. In its capacity ass a gatekeeper, it is expected to detect financial and economic crime, and to fulfil obligations under its duty of care to customers and society. Compliance requirements are not only part and parcel of our licence to operate, but they are also a vital element of the bank-wide purpose: *Banking for better, for generations to come*.

From a compliance risk perspective, 2020 was an intense year and one in which regulatory requirements often took centre-stage. The key priority in 2020 was the focus on a number of investigations and enquiries that were ongoing during the year.

Approval of Annual Financial Statements by Supervisory Board

The Supervisory Board approved these Annual Financial Statements on 18 May 2021. The Annual Financial Statements will be adopted by the General Meeting of Shareholders.

For the Managing Board:
- Ms C.M. Dumas
- Mr S.L. van der Bijl
- Mr J.P. Kolk

For the Supervisory Board:
- Mr J.G. ter Avest
- Ms L.M.R. Vanbockrijck
- Mr D. Reitsma
- Mr P.J. Scholten

Other Information

Independent auditor's report

To: the shareholders and supervisory board of ABN AMRO Hypotheken Groep B.V.

Report on the audit of the financial statements 2020 included in the annual report

Our opinion

We have audited the financial statements 2020 ABN AMRO Hypotheken Groep B.V., based in Amersfoort.

In our opinion the accompanying financial statements give a true and fair view of the financial position of ABN AMRO Hypotheken Groep B.V. as at 31 December 2020, and of its result for 2020 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The financial statements comprise:

- The statutory statement of financial position as at 31 December 2020
- The statutory statement of income for 2020
- The notes comprising a summary of the accounting policies and other explanatory information

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the 'Our responsibilities for the audit of the financial statements' section of our report.

We are independent of ABN AMRO Hypotheken Groep B.V. (herineafter also: the company) in accordance with the EU Regulation on specific requirements regarding statutory audit of public-interest entities, the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Our understanding of the business

ABN AMRO Hypotheken Groep B.V.'s activities consist of providing residential mortgage products and services to retail clients, which are conducted in The Netherlands. Mortgage products and services are offered through the bank branches of ABN AMRO, through intermediaries and online. We paid specific attention in our audit to a number of areas driven by the activities of the company and our risk assessment.

We started by determining materiality and identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud, non-compliance with laws and regulations or error in order to design audit procedures responsive to those risks and to obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

In 2020 we were forced to perform our procedures to a greater extent remotely due to the COVID-19 measures. This limits our observation and increases the risk of missing certain signals. In order to compensate for the limitations related to physical contact and direct observation, we performed alternative procedures to obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Materiality

Materiality	€50 million (2019: € 55 million)
Benchmark applied	5% of operating profit before taxation (rounded)
Explanation	In determining the nature, timing and extent of our audit procedures, we use operating profit before tax as a basis for setting our planning materiality. We believe that this benchmark is the most important metric for the performance of AAHG to users of the financial statements.

We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the supervisory board that misstatements in excess of € 2.5 million, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Teaming and use of specialists

We ensured that the audit team has the appropriate skills and competences which are needed for the audit of a public interest entity in the banking industry. We involved specialists in the areas of IT audit, valuation of real estate, credit risk modelling and actuarial assumptions.

Our focus on fraud and non-compliance with laws and regulations

Our responsibility

Although we are not responsible for preventing fraud or non-compliance and cannot be expected to detect non-compliance with all laws and regulations, it is our responsibility to obtain reasonable assurance that the financial statements, taken as a whole, are free from material misstatement, whether caused by fraud or error. Non-compliance with laws and regulations may result in fines, litigation or other consequences for the company that may have a material effect on the financial statements.

Our audit response related to fraud risks

In order to identify and assess the risks of material misstatements of the financial statements due to fraud, we obtained an understanding of the company and its environment, including the company's internal control relevant to the audit and in order to design audit procedures that are appropriate in the circumstances. As in all of our audits, we addressed the risk of management override of internal control. We do not audit internal control per se for the purpose of expressing an opinion on the effectiveness of the company's internal control.

We considered available information and made enquiries of relevant executives, directors and the supervisory board. As part of our process of identifying fraud risks, we evaluated fraud risk factors with respect to financial reporting fraud, misappropriation of assets and bribery and corruption. In our process of identifying fraud risks, we considered whether the COVID-19 pandemic gives rise to specific fraud risk factors resulting from a dilution in the effectiveness of controls as a result of the general disruption associated with remote working, illness and increased pressure on management to meet financial targets.

We evaluated the design and the implementation and, where considered appropriate, tested the operating effectiveness, of internal controls that mitigate fraud risks. In addition, we performed procedures to evaluate key accounting estimates for management bias in particular relating to important judgment areas and significant accounting estimates as disclosed in note 1.3 “Estimates and assumptions” to the financial statements. We have also used data analysis to identify and address high-risk journal entries.

Our audit procedures to address the assessed fraud risks did not result in a key audit matter. However, we describe the audit procedures responsive to the assessed fraud risk related to the risk of management override of controls in the description of our audit approach for the key audit matter on loan loss allowance for loans and advances - customers.

We incorporated elements of unpredictability in our audit. We considered the outcome of our other audit procedures and evaluated whether any findings were indicative of fraud or non-compliance. If so, we reevaluate our assessment of fraud risk and its resulting impact on our audit procedures.

Our audit response related to risks of non-compliance with laws and regulations
We assessed factors related to the risks of non-compliance with laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general industry experience, through discussions with the management board, reading minutes, inspection of Group Audit and compliance reports and performing substantive tests of details of classes of transactions, account balances or disclosures.

We also inspected lawyers' letters and correspondence with regulatory authorities and remained alert to any indication of (suspected) non-compliance throughout the audit. In case of potential non-compliance with laws and regulations that may have a material effect on the financial statements, we assessed whether the company has a process in place to evaluate the impact of non-compliance for its activities and financial reporting and, where relevant, the company implemented remediation plans. Finally we obtained written representations that all known instances of non-compliance with laws and regulations have been disclosed to us.

Going concern
We performed the following procedures in order to identify and assess the risks of going concern and to conclude on the appropriateness of the managing board's use of the going concern basis of accounting. The managing board made a specific assessment of the company's ability to continue as a going concern and to continue its operations for at least the next twelve months. We discussed and evaluated the assessment with the managing board exercising professional judgment and maintaining professional skepticism, and specifically focusing on the process followed by the managing board to make the assessment, management bias that could represent a risk, the impact of current events and conditions have on the company's operations and forecasted cash flows, with a focus on whether the company will have sufficient liquidity to continue to comply with prudential requirements and to meet its obligations as they fall due.

We consider based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion.

Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company to cease to continue as a going concern.

General audit procedures

Our audit further included among others:

- Performing audit procedures responsive to the risks identified, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the managing board
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Our key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the supervisory board. The key audit matters are not a comprehensive reflection of all matters discussed.

The key audit matter Related party transactions which was included in our last year's auditor's report, is not considered a key audit matter for this year as due to formalized agreements between the company and related parties that have clarified judgmental and subjective elements in determining the pricing of funding transactions.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Loan loss allowance for loans and advances - customers	
Risk	At 31 December 2020, the loans and advances - customers amounted to €139 billion net of associated loan loss allowances amounting to €113 million as disclosed in Note 5 Loans and advances - customers of the financial statements. The accounting treatment of impairments is disclosed in Note 1.10 "Impairments" to the financial statements. The company applies the option to apply IFRS 9 "Financial instruments" for recognition of expected credit losses. The loan loss allowance represents the company's best estimate of expected credit losses (ECL) on the loans and advances - customers at balance sheet date, which is calculated collectively. The loan loss allowance is recognized in three stages under IFRS 9. Stage 1 is where credit risk has not increased significantly since initial recognition, Stage 2 is where credit risk has increased significantly since initial recognition and Stage 3 is where the financial asset is credit impaired. The ECL calculation, outsourced to ABN AMRO Bank N.V., involves complex models based on historical data, assumptions and forward-looking information, including multiple macro-economic scenarios and the COVID-19 pandemic, which impacts these macro-economic scenarios following unprecedented economic circumstances; these models are

	updated and enhanced periodically. To appropriately capture the refinancing risk of the interest-only mortgages, a management provision overlay has been applied, amounting to €15 million, which is included in the loan loss allowance. The modeling assumptions and the management provision overlay are disclosed in the section Credit risk in the Risk Management chapter. As loans and advances - customers and the associated loan impairment allowance are material to the company's financial position and results and due to the high estimation uncertainty on the loan impairment allowance, we consider this a key audit matter.
Our audit approach	We evaluated the accounting policies for compliance with relevant requirements and application guidance of IFRS 9 in accordance with Part 9 of the book 2 of the Dutch Civil Code for recognition of expected credit losses and challenged the criteria for assessing significant increase in credit risk and default. We obtained an understanding of the processes and tested the design and operating effectiveness of internal controls related to loan origination, collections, credit risk management processes, including monitoring of arrears and the period-end estimation process for determining loan loss allowances and the governance over the provisioning. This included testing data accuracy and completeness, data transfers, staging, impairment calculation and reporting. We analyzed the impairment allowance in relation to developments in the loan portfolio and composition of the portfolio. We performed testing on data, staging, models and impairment calculations. To verify data quality, we tested the data used in the calculation by reconciling to source systems and underlying documentation on a sample basis. We assessed retrospective review procedures which compare modelled predictions with actual results. We involved EY modelling specialists to assess the appropriateness of the modelling methodology. We inspected and discussed internal model validation reports. We challenged the assumptions, like the use of macro-economic scenarios and variables such as unemployment rates and housing prices, in the development and validation of ECL model updates. For macro-economic variables, we challenged management's macro-economic forecast and scenarios, including the impact of COVID-19, with the support of internal economic specialists using external benchmarks. We assessed the management overlay applied to interest-only mortgages and assessed whether the impact of COVID-19 has appropriately been incorporated in management's assessment. We challenged the underlying assumptions and tested the data used. Finally, we assessed the completeness and accuracy of the credit risk disclosures and whether these are compliant with the relevant requirements and application guidance of IFRS 7 and IFRS 9 in accordance with Part 9 of the book 2 of the Dutch Civil Code.
Key observations	Based on our procedures performed we consider the loan loss allowances for loans and advances - customers to be reasonable. The related disclosures are considered adequate and appropriate and meet the relevant requirements under IFRS 7 and IFRS 9 in accordance with Part 9 of the book 2 of the Dutch Civil Code.

Reliability and continuity of information technology	
Risk	The company and its financial reporting process are highly dependent on the continuity and reliability of information technology (IT). Additional IT challenges such as increasing data granularity in regulatory reporting requirements urge for changes in processes, data quality and ownership. Having data directly available to clients through web applications require high security measures given the increased threat of cybercrime. The reliability and continuity of electronic data processing is disclosed in in the section Information Risk in the Risk Management chapter of the annual financial statements. The company implemented several remediation activities to improve IT security and improve resilience that continue into 2021. As the reliability and continuity of the IT systems may have an impact on automated data processing, the financial reporting process and given the pervasive nature of IT General Controls, on the internal control environment, we consider this a key audit matter.
Our audit approach	We tested the design and operating effectiveness of IT General Controls related to user access management and change management across applications, databases and operating systems. We also tested application controls relied upon for financial reporting and embedded in key processes, including the outsources processes. We evaluated the reliability and continuity of electronic data processing only to the extent necessary within the scope of the audit of the financial statements. We took notice of the outage of the operational IT network, assessed the impact thereof and determined that all the lost data during the outage has been correctly processed on the subsequent day. For the mortgage granting process, we performed additional procedures on access management and related systems to ensure proper segregation of duty was in place during final approval of mortgages.
Key observations	For the audit of the financial statements we found the reliability and continuity of information technology adequate.

Report on other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- Report of the managing board
- Report of the supervisory board
- Other information as required by Part 9 of Book 2 of the Dutch Civil Code
- ABN AMRO Hypotheken Group at a glance and Corporate structure

Based on the following procedures performed, we conclude that the other information:

- Is consistent with the financial statements and does not contain material misstatements
- Contains the information as required by Part 9 of Book 2 of the Dutch Civil Code

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements. By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

The managing board is responsible for the preparation of the other information, including the report of the management board in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information required by Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Engagement

We were engaged by the Supervisory Board as auditor of ABN AMRO Hypotheken Groep B.V. on 11 September 2015 as of the audit for the year 2016 and have operated as statutory auditor ever since that date.

No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audit of public-interest entities.

Other non-prohibited services provided

In addition to the statutory audit of the financial statements, we provided services on current account statements with external insurance companies, for which we issued specific assurance reports and performed agreed upon procedures.

Description of responsibilities for the financial statements

Responsibilities of the managing board and the supervisory board for the financial statements

The managing board is responsible for the preparation and fair presentation of the financial statements in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the managing board is responsible for such internal control as the managing board determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the managing board is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting framework mentioned, the managing board should prepare the financial statements using the going concern basis of accounting unless the managing board either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. The managing board should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The supervisory board is responsible for overseeing the company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgment and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. The Our audit approach section above includes an informative summary of our responsibilities and the work performed as the basis for our opinion.

Communication

We communicate with the supervisory board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit.

In this respect we also submit an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

We provide the supervisory board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the supervisory board, we determine the key audit matters: those matters that were of most significance in the audit of the financial statements. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Amsterdam, 18 May 2021
Ernst & Young Accountants LLP

P.J.A.J. Nijssen

Other information

Provisions in the Articles of Association governing profit appropriation

Subject to the approval of the Supervisory Board, the Managing Board will decide what earnings, i.e. the profit disclosed in the income statement, to retain on an annual basis.

The profit remaining after retained earnings will be distributed to the shareholders in the form of dividend prorated to their share in the company's capital. Profits distributed to shareholders will be capped at the amount of the distributable reserves in equity. Profits will not be distributed until the financial statements showing that profit distributions are permitted have been adopted. The Managing Board is competent to authorise the distribution of interim dividend. A decision to distribute interim dividend is subject to the approval of the Supervisory Board.

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